CONTROL-ENHANCING CORPORATE GOVERNANCE MECHANISMS: FAMILY VERSUS NONFAMILY PUBLICLY TRADED FIRMS

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In this dissertation, Essay 1 draws upon agency theory and corporate governance to classify control enhancing corporate governance provisions and to examine the use of these provisions within the context of publicly traded family firms. I argue that publicly traded family firms will differ from publicly traded nonfamily firms in terms of the frequency of the use of different types of control enhancing governance provisions. Specifically, I argue that family ownership will influence the frequency of the use of provisions and family management will moderate the relationships between family ownership and the frequency of the use of governance provisions. I develop and test the hypotheses on a sample of 386 of S&P500 firms. Findings do not support the hypothesized relationships. A rationale for the non-significant relationships is also provided.

In Essay 2, drawing upon agency theory and the extant family governance literature, I examine the link between family involvement, the use of governance provisions, and firm performance. I suggest that the frequency of the use of different types of control enhancing governance provisions differentially influence the relationship between family involvement (i.e. family ownership and family management) in the business and firm performance. I develop and test the hypotheses on 386 of the S&P500 firms. Findings support the hypotheses suggesting the moderation effects of (a) the frequency of the use of provisions protecting controlling owners in terms of their sustainability of controlling status on the inverted u-shaped relationship between family ownership and firm performance, (b) the frequency of the use of provisions protecting management legally on the inverted u-shaped relationship between family ownership and firm performance, (c) the frequency of the use of provisions protecting controlling owners in terms of their voting rights on the inverted u-shaped relationship between family management and firm performance, (d) the frequency of the use of provisions protecting noncontrolling owners on the inverted u-shaped relationship between family management and firm performance, and (e) the frequency of the use of provisions protecting management monetarily on the inverted u-shaped relationship between family management and firm performance. Finally, results, future research directions, and implications for practice are discussed.

Key words: Family Involvement, Principal-principal Agency, Corporate Governance, Firm Performance

DEDICATION

I would like to dedicate this dissertation to my parents Dr. Emire Bozkurt and Dr. Celal Turan Bozkurt, my grandfather Mr. Bekir Ataer, and my daughter Aylin Memili. Mom and Dad: I would like to thank you for being wonderful role models with your hard work and diligence in saving lives in your medical careers which I always look up to and be proud. I am also thankful for your continuous support and guidance which gives me strength in my developing an academic career. Grandpa (Bekir Dede): Your successful and exemplary family business and the learning opportunities I had there have been valuable in my business education, work experiences, family business research, and teaching. Aylin: You are my inspiration. Everything I do is oriented toward providing better opportunities for you.

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CHAPTER I

INTRODUCTION

Even though family owned and/or managed firms dominate the economic landscape around the globe (Morck & Yeung, 2004), organizational research tends to limit its focus to nonfamily firms without considering the idiosyncrasies of family governance in their conceptualizations (Dyer, 2003). Family business studies in management also tend to mostly investigate small-to-medium sized firms. These limit our understanding of the unique governance dynamics of publicly traded family firms theoretically and practically. Pertinent to the purpose of this dissertation, no study to date has examined the propensity to use corporate governance provisions and their influence on the relationship between family involvement (i.e. family ownership and family management) and firm performance within the context of publicly traded family firms.

The use of control enhancing corporate governance provisions may be the key in understanding unique corporate governance characteristics of publicly traded family firms. This can also shed light on the differences between publicly traded family and nonfamily firms as well as among family firms themselves. Indeed, the use of governance provisions can lead to opportunistic actions by owners and/or managers and result in agency problems.

On the one hand, family firms may be prone to more severe principal-principal agency problems arising between controlling and noncontrolling owners owing to families' significant stock ownership, participation in management and the board, and pursuit of family-centered goals (Ali et al., 2007; Maury, 2006). On the other hand, publicly traded family firms may exhibit less severe principal-agent agency problems because of controlling families' involvement in ownership and management and their effective monitoring (Maury, 2006). Control enhancing governance provisions may come into play by strengthening the family's ability to pursue family oriented goals, rather than increasing shareholder wealth. Hence, the propensity to use control enhancing mechanisms within the context of publicly traded family firms and their impact on the relationship between family involvement and firm performance require more research attention, since some of them may be associated with principal-principal agency costs, which can consequently harm firm performance (Chrisman et al., 2010; Morck et al., 1988).

Gompers et al. (2003) identify 24 control enhancing governance provisions which can result in higher agency costs when managers use them to resist different types of shareholder activism. However, the authors do not consider the contextual differences between family and nonfamily publicly traded firms. Therefore, studies examining the use of control enhancing governance provisions, particularly as used by the firms in the US, are needed to better understand corporate governance in US firms and to better understand differences between publicly traded family and nonfamily firms.

To investigate the propensity to use corporate governance provisions and their influence on the relationship between family involvement (i.e. family ownership and family management) and firm performance within the context of publicly traded family firms, I draw upon agency theory, corporate governance, and the literature on family firms. In Essay 1, the governance provisions are classified based on the various purposes of usage and the existence of different interest groups (i.e. controlling owners, noncontrolling owners, managers and directors, and employees). I then test several hypotheses on how family ownership and family management will differentially affect the use of governance provisions using a sample of 386 firms from the S&P 500. In Essay 2, I develop and test hypotheses on the moderating effects of the use of governance provisions on the relationship between family involvement (i.e. family ownership and family management) and firm performance. The dissertation ends with a conclusion chapter summarizing the important results and implications.

CHAPTER II

ESSAY 1.

CONTROLLING FAMILIES' PROPENSITY TO USE

CORPORATE GOVERNANCE PROVISIONS

Introduction

Berle and Means (1936: 2) define a corporation as "a means whereby the wealth of innumerable individuals has been concentrated into huge aggregates and whereby control over this wealth has been surrendered to a unified direction". Within the framework of the corporate system, shareholders supply capital to the enterprise and expect a return from it. Berle and Means (1936) also highlight that corporate control appears in many forms such as minority shareholder control, large shareholder control, and management control. Many publicly traded corporations in the U.S. are controlled by a large shareholder group, typically founding families (Villalonga & Amit, 2006, 2009). Family involvement occurs when a family exerts control over the firm through ownership and management (Chrisman, Chua & Litz, 2004; Chrisman, Chua & Steier, 2005). Accordingly, family controlled publicly traded firms are those in which the founders or family members are officers, directors, or blockholders, either individually or as a group (Villalonga & Amit, 2009). When family involvement leads to the pursuit of particularistic goals and strategies (Carney, 2005), family firm behavior is expected to be distinct from those in nonfamily firms. Despite the inherent differences between family and nonfamily firms and among family firms themselves, family involvement is underresearched in organizational studies, which limits the generalization of findings and leads to theoretical ambiguity (Chrisman, Chua, Pearson & Barnett, forthcoming; Dyer, 2003).

Strategic decisions concerning the use of control enhancing corporate governance provisions may be the key in understanding differences between publicly traded family and nonfamily firms since they may frame opportunistic actions of owners and/or managers as legitimate and result in idiosyncratic agency relationships and associated problems. Governance is a system of control or regulation which includes the process of appointing the controllers or regulators (Turnbull, 1997). The central concern of corporate governance is to construct rules and incentives to effectively align the interests of managers and owners (Shleifer & Vishny, 1997; Turnbull, 1997).

Within the context of corporate governance, publicly traded family firms tend to exhibit less severe principal-agent agency problems arising from the separation of ownership and management, because of the direct involvement of family owners in management as well as the ability to monitor the managers through their direct involvement in firm governance (Maury, 2006). However, family firms are believed to exhibit more severe principal-principal agency problems arising between controlling and noncontrolling shareholders owing to families' significant stock ownership and control over the board of directors, which allow them to pursue their own interests, which are likely to be different from those of noncontrolling owners (Ali et al., 2007; Maury, 2006). Indeed, some families may exhibit more concern with the private benefits of control (i.e., benefits appropriated by large shareholders at the expense of minority shareholders) (Shleifer & Vishny, 1997) and the preservation of socioemotional wealth to achieve noneconomic goals (Berrone et al., 2010; Chrisman, Chua & Litz, 2003; Chrisman, Chua, Pearson, Barnett, forthcoming; Gomez-Mejia et al., 2007) than increasing shareholder wealth. For example, the controlling family may attempt to expand in order to create jobs for family members and to sustain family control, even though the investment may not be profitable for the firm and may lower shareholder value (i.e., stock market valuation of the corporation) or resist diversification that may be potentially profitable (Gomez-Mejia et al., 2010). Likewise, Berrone et al. (2010) show that family firms tend to engage in risky environmental investments that go beyond regulatory compliance since they bear only a fraction of the risk, while enjoying the noneconomic benefits such as enhanced family image and reputation in public eye. Control enhancing governance mechanisms, such as unequal voting rights in favor of the controlling family, can strengthen the family's ability to pursue noneconomic and economic goals primarily benefiting family members, rather than increasing shareholder wealth.

Gompers et al. (2003) show that control enhancing governance provisions can lead to higher agency costs if managers use them to resist different types of shareholder activism (geared toward directing executives and directors to manage the firm in line with shareholders' long-term interests) (Daily et al., 2003). These control enhancing mechanisms generally increase voting rights of the families relative to their share ownership (Villalonga & Amit, 2006b). However, studies investigating control enhancing governance index provisions, particularly as used by the firms in the US, are needed to better understand corporate governance in US firms and to distinguish between publicly traded family and nonfamily firms.

Control enhancing mechanisms within the context of publicly traded family firms require more research attention, since some of them may be associated with acute principal-principal agency costs (Chrisman et al., 2010; Morck et al., 1988). Additionally, increasing ownership to a point at which managers become entrenched can elevate agency costs (Crutchley, 1999). Nevertheless, we do not know enough about the factors that enhance or mitigate controlling owners' ability and willingness to pursue policies that lead to the expropriation of minority shareholder wealth in family firms as opposed to those that increase shareholder wealth (Chrisman et al., 2010).

Thus, this essay applies agency theory (Fama & Jensen, 1983; Jensen & Meckling, 1976) with a focus on principal-principal agency issues and corporate governance theory concerned with i) corporate ownership, control, and power; ii) shareholder value and activism; and iii) control enhancing mechanisms (Becht et al., 2005; Gompers et al., 2003; Hart, 1995; Herman, 1981), as well as the extant family business literature to develop and test the model in this essay. The model addresses how the frequencies of different types of control enhancing governance provisions used by family firms are likely to differ from those used by nonfamily firms (i.e. how family ownership affects the frequency of the use of governance provisions and how family management moderates these relationships). Accordingly, this model examines the use of governance provisions within the context of family firms.

This essay contributes to the literature in at least two ways. First, the model enhances the development of the theory of the family firm by drawing upon agency theory and incorporating corporate governance into family business studies to explain how families control corporations differently; in particular, controlling families' propensity to use governance provisions and why and how they utilize control enhancing governance provisions idiosyncratically. By doing so, this essay contributes to a better understanding of the differences between publicly traded family and nonfamily firms. Second, corporate governance provisions are classified within the context of family firms considering the purpose of usage and the existence of different interest groups (i.e. controlling and noncontrolling owners). This is an important step in explaining distinctive corporate governance dynamics in family controlled publicly traded firms. Then, this essay examines the interplay between family ownership and family management in influencing the use of different types of governance provisions. Hence, this essay contributes to the literature by incorporating insights from agency theory with a focus on principal-principal agency problems and corporate governance into the developing theory of the family firm (Chrisman, Chua & Sharma, 2005).

In the remainder of this essay, a theoretical overview is provided and governance provisions are classified. Then, the model is developed and tested. Finally, a discussion of results, future research opportunities, and implications for practice are presented.

Theoretical Overview

Agency Theory

Agency relationships occur when a principal hires an agent to perform services and delegates authority to the agent (Jensen & Meckling, 1976). According to Jensen (1994), agency problems are likely to arise among individuals engaging in cooperative endeavors in any given setting (e.g. commerce, family, or other social organizations), since people are often driven by their self-interests and subsequently experience self-control problems. Agency theory is particularly concerned with contractual arrangements containing the agreed upon terms of agency (Ross, 1973). Since contracts are incomplete owing to bounded rationality and information asymmetries, separation of ownership and control can lead to problems when the interests of the principal and the agent diverge, and when it is difficult for the principal to monitor the behavior of the agent (Eisenhardt, 1989). This can lead to principal-agent agency problems, whereas principal-principal agency problems arise from the conflict between controlling and noncontrolling shareholders (Ali et al., 2007).

Agency problems can appear in the forms of adverse selection and moral hazard (Eisenhardt, 1989). Adverse selection occurs when the principal hires an agent who is less able, committed, industrious, or ethical, or whose interests are less compatible with those of the principal than expected (Chrisman et al., 2004). Moral hazard refers to "lack of effort on the part of the agent" (Eisenhardt, 1989: 61). Moral hazard can be in the forms of commission or omission of actions (e.g. shirking and the consumption of perks), after the hiring of the agent (Chrisman et al., 2004). Within the firm, these problems of opportunism can be mitigated via incentives and monitoring; while the market for corporate control provides an additional external check on opportunistic behavior (Eisenhardt, 1989).

Agency Problems in Family Firms

Many suggest that fewer agency problems will be experienced in firm governance with unified ownership and management (Chrisman et al., 2004; Jensen & Meckling, 1976; Fama & Jensen, 1983). Alignment of interests, monitoring advantages, and increased concern for shareholder wealth owing to property rights tend to mitigate some agency costs (Chrisman et al., 2004; Schulze et al., 2001). Additionally, reciprocal altruism in family firms can mitigate agency costs. Reciprocal altruism is a mutual moral value that motivates individuals to act in a manner that would benefit other individuals without expecting anything in return (Schulze, Lubatkin & Dino, 2002). On the one hand, when family business members are reciprocally altruistic to each other (Chrisman, Chua, & Sharma, 2005), their interests may be aligned with the interests of the family firm (Corbetta & Salvato, 2004) and family business members may hold business objectives above their personal objectives (Zahra, 2003). As reciprocal altruism facilitates bonding through trust, communication, respect, and love (Lubatkin, Schulze, Ling & Dino, 2005), family firms foster collectivistic behaviors rather than self-serving behaviors (Corbetta et al., 2004). On the other hand, family relationships characterized by asymmetric altruism can lead to agency problems such as self-control (e.g. owner-managers take actions that can harm themselves and others), adverse-selection (i.e. “principal may contract with family members who are less able, committed, industrious, or ethical, or whose interests are less compatible than the principal expected" (Chrisman et al., 2004: 336-337), and moral hazard (i.e. "commission or omission of actions, after contracting that work in the interest of the agent but are detrimental to that of the principal" (Chrisman et al., 2004: 336-337), which can be in the forms of shirking or the consumption of perks in family firms (Jensen, 1994; Schulze et al., 2001). Within the framework of agency theory, people are indeed motivated by nonmonetary factors such as altruism, and may harm themselves and others in the case of asymmetric altruism (Jensen, 1994). For example, when parents with nepotistic tendencies hire and promote offspring (or other kin) based on irrelevant criteria (e.g. kinship ties) in contrast to universalistic criteria based on competence (Perrow, 1972), this can lead to adverse selection and biased evaluation, restrictions in human capital, and result in inertia in strategic decision making that potentially harms the long term survival and growth of family firms (Chua et al., 2003; Dyer, 2006; Ensley, 2006; Lester & Cannella, 2006; Mitchell, Morse & Sharma, 2003; Schulze, Lubatkin & Dino, 2002; Zahra, Hayton & Salvato, 2004; Hoy et al. 1994).

Principal-principal versus Principal-agent Agency Problems

Many public corporations in the U.S. and around the world are controlled by families through their participation in ownership and management (Anderson & Reeb, 2003a, 2003b, 2004; McConaughy et al. 1998; McConaughy & Phillips, 1999; Villalonga & Amit, 2006a, 2006b, 2008, 2009a, 2009b). In publicly traded family firms, agency problems are expected to be different from those in nonfamily firms exhibiting more principal-agent agency problems. Agency problems in publicly traded family firms are also expected to be different from privately held family firms, owing to the existence of various groups of owners and/or managers with different, and often conflicting, interests (Demsetz & Villalonga, 2001; Gomez-Mejia et al. 2001). Because family owners often have management representation as well, the interests of owners and managers tend to be relatively more aligned than in nonfamily publicly traded firms. However, these controlling family owners and managers in family controlled corporations are likely to hold interests that are not identical to those of noncontrolling shareholders, who have less power due to minority ownership and less active participation in management. Hence, in publicly traded family firms, the concern is that when the CEO and board positions are dominated by the family because they may act for the controlling family but not for the noncontrolling owners in general (Morck & Yeung, 2003).

Expropriation of Noncontrolling Shareholder Wealth

Research shows that principal-principal agency problems tend to be more prevalent than owner-manager agency problems in publicly traded family firms (Ali et al., 2007; Chrisman et al., 2010; Miller & Le Breton-Miller, 2006; Villalonga & Amit, 2006). This is because concentrated control simplifies the task of monitoring agents (who may also be owners), but increases the incentive and power of owners to expropriate minority shareholder wealth (Anderson & Reeb, 2003, 2004; Andres, 2008; Gilson & Gordon, 2003; Johnson et al., 2000; La Porta et al. 1999). Expropriation occurs within the weak governance context when large or majority owners control the firm and limit noncontrolling owners' right to appropriate returns on their investments (Dharwadkar et al., 2000; Young et al., 2008).

One way controlling owners expropriate noncontrolling shareholder wealth is by tunneling through non-arm's-length, related-party transactions (Shleifer & Vishny, 1997; Young et al., 2008). Transfer pricing, which is a related-party transaction, can occur by managers' forming independent companies that they own personally and selling the products of the main company they manage to the independent firms at below market prices or vice versa. Misallocation of company funds can be through self-dealing transactions such as exclusive dividends, high compensation, loan guarantees using the firm's assets as collateral, or sub-optimal investment decisions that create empire building opportunities for family members (i.e. excessive expansion), while lowering shareholder value owing to the ex post inefficiencies. The management can also hold excessive cash within the firm allowing the family to exploit it to their private benefit rather than investing or returning it to investors (Shleifer & Vishny, 1997).

Furthermore, managerial resistance to value-increasing takeovers in order to protect the private benefits of family control can lower shareholder wealth (Mahoney & Mahoney, 1993; Mahoney et al., 1996, 1997; Cremers & Nair, 2005). Indeed, shareholders tend to gain large positive abnormal returns from corporate takeovers owing to the economies of scale and other synergies available from combining or reorganizing control and management of corporate resources (Jensen & Ruback, 1983; Berkovitch & Narayanan, 1993; Bebchuk, 2003). Takeovers can also lead to an increase in market power in product markets, tax advantages, and avoidance of bankruptcy. As a result, the combined firm generates cash flows with a present value in excess of the sum of the market values of the bidding and target firms (Jensen & Ruback, 1983; Jensen, 1988).

However, transfer of control may not be favorable for controlling owners of a target family firm owing to the loss of private benefits of family control, despite the pecuniary benefits of the takeover. Therefore, family managers' anti-takeover actions, independent of the price offered, indicates managerial pursuit of self- and family-interest at the expense of shareholders (Jensen & Ruback, 1983). Accordingly, Gompers et al. (2003) show that anti-takeover Governance Index provisions in the US are associated with lower firm value.

According to Shleifer and Vishny (1997), the problem of expropriation can be acute particularly when the controlling owners are wealthy enough and they simply prefer to maximize private benefits of control rather than shareholder wealth. Interestingly, much of the tunneling is legal and takes places in developed countries as well (Johnson et al., 2000). However, in countries (e.g. U.S.) where pyramidal group structures are relatively rare, many transactions inside a group would be challenged on fairness grounds by minority shareholders (Johnson et al., 2000). Therefore, when a legal system such as that in the U.S. provides investor protection, the controlling owners may still overpay themselves, place family members in management and/or board positions, undertake some fruitless projects, reduce innovation, avoid diversification, affect dividend policy, and oppose raising capital for expansion (Anderson & Reeb, 2003a, 2003b; Gomez-Mejia et al., 2010; La Porta et al., 2000; Young et al., 2008).

Entrenchment of Controlling Family

Aside from the expropriation problem, higher levels of ownership and management can also result in managerial entrenchment of family members. Managerial entrenchment occurs when a manager remains active in management and resists transfer of control even though he/she is no longer competent or qualified to run the firm (Anderson et al., 2002; Anderson & Reeb, 2003a; Claessens et al., 2002; Crutchley, 1999; Gomez-Mejia et al., 2001; Morck & Yeung, 2003; Shleifer & Vishny, 1997; Westhead et al., 2001). Managerial entrenchment is often ensured by managers' obscuring or hiding negative attributes, hiring consultants to legitimize decisions, influencing the board to elude the board's monitoring and control, manipulating information, making themselves indispensable by initiating projects that require their skills and abilities, and attributing poor firm performance to environmental factors (Gomez-Mejia et al., 2001; Walsh & Seward, 1990).

Gomez-Mejia et al. (2001) argue that family firms may be more prone to managerial entrenchment because family ties and emotions may influence the perceived competence of the family executive(s), lowering the effectiveness of monitoring and resulting in biased judgments of executive performance. Accordingly, a study by Westhead et al. (2001) shows that family member CEOs maintain their CEO positions for much longer than nonfamily CEOs in family firms. Miller and Le Breton-Miller (2006) also draw attention to lengthy CEO tenures in family firms, with tenures ranging from 15 to 25 years. In addition, the proportion of shares owned by directors in family firms tends to be significantly more than the proportion owned by directors in nonfamily firms (Westhead et al., 2001).

The Drivers of Principal-principal Agency Problems

Studies suggest that the equity level of the controlling family can influence the conflicts between family and nonfamily shareholders (Gilson & Gordon, 2003; Villalonga & Amit, 2006a). In large US corporations, founding families appear to be the only blockholders whose control rights on average exceed their cash-flow rights (Villalonga & Amit, 2009b). The discrepancy between family's control rights and ownership tends to exacerbate the agency problem of the expropriation of noncontrolling owners since families bear only a fraction of the costs associated with the private benefits they reap (Claessens et al. 2002; Jensen & Meckling, 1976; Miller & Le Breton-Miller, 2006; Villalonga & Amit, 2006b). Ang et al. (2000) argue that a manager with less than 100 percent ownership share of the firm has the incentive to consume perks rather than to maximize firm value since the manager gains 100 percent of the amount spent on perks, but sacrifices only his/her percentage of share in firm profit.

Moreover, family owners may simply prefer to maximize the noneconomic benefits of control rather than wealth. In family firms, family-oriented noneconomic goals can be in the forms of preservation of family harmony, identity, dynasty, social capital, reputation, and ability to be altruistic toward family members and exercise family influence (Berrone et al., 2010; Chrisman et al., 2010; Gomez-Mejia et al., 2007, 2010). The achievement of these goals creates socioemotional wealth for the family and elevates their intention to sustain family control (Chua et al., 1999; Gomez-Mejia et al., 2007). The loss of socioemotional wealth, however, can result in diminished intimacy, lowered status, and inability to meet family's expectations (Gomez-Mejia et al., 2007). Hence, family firms could be willing to accept greater performance hazard in order to preserve socioemotional wealth rooted in noneconomic goals (Chrisman et al., 2003; Gomez-Mejia et al., 2007). Gomez-Mejia et al. (2007) show that family firms may be willing to accept risk to their performance to avoid the loss of socioemotional wealth, but at the same time be risk averse in making other business decisions. As a result, family-centered noneconomic goals may not create wealth for nonfamily stakeholders and the benefits obtained from the attainment of these goals are usually not transferable to nonfamily stakeholders (Chrisman et al., 2010).

Additionally, family firm leaders often desire to pass on a sustainable legacy to future generations of the family (Dyer & Whetten, 2006), which leads to parsimony in resource conservation and allocation (Carney, 2005), particularly when a family's equity ownership constitutes a significant portion of the family's undiversified total wealth (Wright et al., 1996). In these cases, family owners and/or managers may be reluctant to support innovation or other risky investments necessary to maximize firm performance and growth (Morck & Yeung, 2003; Wright et al., 1996). Accordingly, researchers (e.g. Daily et al., 2003; Mishra & McConaughy, 1999) suggest that the risk aversion of family owners may cause them to forego profitable growth opportunities with the side effect of lowering the potential growth of the firm. This may consequently create conflict of interests between the controlling family and outside shareholders in the form of reductions in the family's risk exposure at the expense of other shareholders' potential higher returns.

The Mechanisms Exacerbating Principal-principal Agency Problems

The controlling owners tend to increase their power as well as their voice to direct the firm toward meeting their demands by creating a wedge between their control rights and cash-flow rights. This allows them to avoid incurring their fair share of the cost of their actions (Shleifer & Vishny, 1997; Villalonga & Amit, 2009b). The primary sources of the wedge are dual-class stock, disproportionate board representation, and voting agreements. Indirect ownership through trusts, foundations, limited partnerships, and other corporations is also prevalent but rarely creates a wedge (Villalonga & Amit, 2009b). Specifically, when there is a substantial departure from the one-share-one-vote system of stock ownership, controlling owners are able to treat themselves exclusively at the expense of noncontrolling owners (e.g. by not paying out cash flows as pro-rata distributions to all investors, but rather paying themselves only) (Shleifer & Vishny, 1997).

Furthermore, controlling shareholders either actively participate in management or are positioned to assure that management and even the board serve their interests (Demsetz & Lehn, 1985). According to Brecht et al. (2005), controlling shareholder actions are often channeled through the board of directors, who are often appointed by the controlling owners to represent their interests (Brecht et al., 2005). This is in line with family owner and managers' particularistic tendencies with regard to whom they personally choose to work with in their organizations (Carney, 2005). In that case, the board of directors often involves family members and affiliate directors with personal and/or business connections and obligations to the controlling family. Hence, these board members are expected to play an advisory role rather than a monitoring role without reducing the control of family owners (Brecht et al., 2005; Combs, 2008; Herman, 1981; Jones et al., 2008). According to Combs (2008) and Jones et al. (2008), affiliate directors in publicly traded family firms may be influential in adopting growth-oriented strategies such as diversification. However, a controlling family's active involvement in management and the board can hamper monitoring and enable the controlling family's expropriation of noncontrolling shareholders' wealth and continued entrenchment, which can undermine the benefits of affiliate directors' advice.

In addition, the generation in charge can lead to differences in the agency costs between family and nonfamily firms (Villalonga & Amit, 2006a, 2009a). Villalonga and Amit (2006a) show that the owner-manager conflict in nonfamily firms may be more costly than the conflict between family and nonfamily shareholders in founder-CEO firms, whereas the conflict between family and nonfamily shareholders in descendant-CEO firms can be more costly than the owner-manager conflict in nonfamily firms. According to Villalonga and Amit (2009a), while all types of controlling families and individuals seek to maximize value for themselves, only founding families are willing and able to maximize value for all shareholders. This may be owing to the founder's or founding family's legitimate power and focus on performance. Descendants, however, may be preoccupied with engaging in power contests individually or through forming family coalitions, shifting the focus from performance to politics, which can foster relational conflict and harm performance (Eddleston & Kellermanns, 2007; Kellermanns & Eddleston, 2004). Even if the family exhibits harmony, the transition from founding family control to the descendant family control leads to dispersed family influence with lower levels of family's identification and attachment to the organization (Gomez-Mejia et al., 2007), which can increase agency problems and lower firm performance. The other factors that may play a role in descendant-CEO firms' relatively lower performance may be the descendants' being less capable and their appointment to their position based on kinship ties rather than an objective evaluation of qualifications and/or their industry(s)'s becoming mature with reduced returns and opportunities over time.

Hence, principal-principal agency problems arising between controlling and noncontrolling shareholders can sometimes be more severe than the principal-agent agency problems in publicly traded family firms (Ali et al., 2007). However, according to Gilson and Gordon (2003), noncontrolling shareholders will continue to prefer the presence of a controlling shareholder so long as the benefits from reduction in principal-agent agency costs are greater than the costs of private benefits of control. Interestingly, the authors also suggest that some private benefits of control may be even necessary to encourage a party or a group to be the controlling shareholder, owing to the costs associated with holding a concentrated position and with monitoring, whereas a nonmonitoring shareholder often enjoys the full benefits of the monitoring provided by a controlling shareholder without incurring any monitoring cost (Ang et al. 2000).

In sum, dominant family ownership and management can be a root cause of principal-principal agency problems. Expropriation of noncontrolling owners' wealth can take different forms such as appointing family members and acquaintances to key positions without proper evaluation of qualifications, implementing strategies (e.g.

resistance to takeovers or little/lack of investment into R&D) that allow family agendas to be followed at the expense of firm performance, and engaging in related-party transactions (Young et al., 2008). Entrenchment occurs when a controlling family resists transfer of control and remains active in management even when this is no longer beneficial to the firm (Gomez-Mejia et al., 2001; Shleifer & Vishny, 1997). The root causes for expropriation and entrenchment problems associated with family involvement in the business may be that the family bears a small portion of the costs associated with private benefits and prefers to maximize noneconomic goals. Families can expropriate noncontrolling owners' wealth and entrench themselves through creating a wedge between voting and cash-flow rights and actively participating in management or appointing managers and directors acquainted by the family (Brecht et al., 2005; Shleifer & Vishny, 1997; Villalonga & Amit, 2009b). The generation in charge tends to play a role in differences in the agency costs between family and nonfamily firms as well (Villalonga & Amit, 2006a, 2009a). A summary of agency theory and agency problems can be seen in Appendix A. This essay extends this line of research by investigating the link between family involvement and the use of different types of governance provisions.

Corporate Governance

Corporate governance is "the determination of the broad uses to which organizational resources will be deployed and the resolution of conflicts among the myriad participants in organizations" (Daily et al., 2003b: 371). According to Gourevitch and Shinn (2005), corporate governance encompasses both the structure of power within each firm that determines allocation of money (i.e., who gets the cash flow, who allocates jobs, who decides on research and development, on mergers and acquisitions, in hiring and firing CEOs, on subcontracting to suppliers, on distributing dividends or buying back shares or investing in new equipment) and responsibility (i.e., who is liable for wrongdoing, misuse of funds, or poor performance). Accordingly, Gedajlovic et al. (2004: 910) define governance as “a system of incentives, authority relations, and norms of legitimacy”.

Corporate governance becomes particularly important when there is an agency problem involving the members of an organization and this agency problem cannot be dealt with through an incomplete contract (Hart, 1995). On the one hand, in an idealized situation when there is no agency problem, all organizational members are motivated to maximize profit and minimize cost, which consequently maximizes shareholder value. In addition, no governance is necessary to resolve disagreements or conflicting interests. On the other hand, in the real world, there are agency problems and complete contracts are infeasible owing to bounded rationality and information asymmetries (Eisenhardt, 1989). Corporate governance therefore plays a critical role in allocating residual rights of control which are “rights to decide how assets should be used, given that a usage has not been specified in an initial contract” (Hart, 1995: 680; Shleifer & Vishny, 1997). Corporate control, within the framework of corporate governance, involves the rights to determine the management of corporate resources (e.g. the rights to hire, fire, and set the compensation of top-level managers) (Jensen & Ruback, 1983). These rights are usually determined by the ownership level and participation in management and the board.

In this section, corporate governance dynamics (i.e., management and ownership, board of directors, corporate governance mechanisms, and large shareholders) are discussed. In the following section, family involvement in corporate governance will be explained.

Ownership and Management

Grossman and Hart (1986) define ownership as the purchase of the residual rights of control and the power to exercise control. In publicly traded firms, however, where ownership and management are separated via diffuse ownership structures, dispersed owners' interests can be under-represented because corporate management tends to be the main decision maker (Demsetz, 1983). When the largest shareholder's ownership constitutes less than one percent of all shares outstanding, no shareholder can dominate management or use holdings for the accumulation of the majority of votes necessary to exercise day-to-day control over management (Berle & Means, 1936; Hart, 1995). Thereby, the shareholders hold a set of legal and factual interests in the corporation, such as the corporation's profitability with a reasonable level of risk, receipt of equitable share of profits distributed, and stocks' marketability at a fair price, whereas the ones in control hold the legal and factual powers to it (Berle & Means, 1936). Hence, conflicts of interest between shareholders and managers are often resolved in management's favor through abnormally high managerial salaries or excessively large firms owing to overexpansion (Demsetz, 1983). This implies that firm resources may not be entirely used in the pursuit of shareholders' profit (Demsetz & Lehn, 1985). Indeed, shareholders with small amounts of ownership have little or no incentive to monitor management when monitoring is costly (Demsetz, 1983). The shareholders retain expectations that the management will run the corporation for their benefit and the law holds the management to standards of conduct, which are a decent amount of attention to business, fidelity to the interests of the corporation, and reasonable business prudence (Berle & Means, 1936). Hence, "all the powers granted to management and control are powers in trust" (Berle & Means, 1936: 336).

Board of Directors

In the absence of monitoring, management can pursue personal goals through elevating executive compensation, investing in power-enhancing unprofitable projects, and entrenching themselves, despite their primary duty to maximize shareholders' wealth (Crutchley et al., 1999). Owing to the risk of managerial opportunism, either in the form of expropriation of shareholders, and/or misallocation of firm's resources, there is a need for ongoing supervision of management and alignment of interests between the management and shareholders (Demsetz, 1983). Therefore, the shareholders delegate control to a board of directors and assign them to oversee the actions of management (Grossman & Hart, 1986). This can reduce principal-agent agency problems. According to Jensen (1993: 862), the board of directors is "the apex of the internal control system". This is because they are responsible for effective corporate control over organizational functioning through key oversight tasks such as hiring, firing, and compensating CEOs, monitoring management, voting on important decisions such as mergers and acquisitions, and changes in the firm's capital structure such as stock repurchases or new debt issues (Becht et al., 2005; Daily et al., 2003b).

Nevertheless, the members of the board themselves may also have interests that diverge from those of the shareholders and little incentive to monitor unless they are significant shareholders themselves (Demsetz, 1983; Gedajlovic & Shapiro, 1998). Also, the board's effectiveness depends on its independence from the CEO of the firm (Hermalin & Weisbach, 2003). When founders are still active and the CEO has a large ownership position, the boards tend to be dominated by insiders (Hermalin & Weisbach, 2003). In that case, even outside directors may play a limited, dependent, and passive role, if they have ties and obligations to insiders by some sort of personal or business relationship, which can diminish their independence (Becht et al., 2005; Herman, 1981). When management dominates the board selection processes and the board is compliant to management, management control is enhanced. According to Herman (1981), the increase in the number and proportion of outside directors do not alter this pattern significantly. Indeed, boards tend to "carry with them vestiges of their history and traditions" despite the need for change (Lynall et al., 2003: 416). In the U.S., the board of directors is often composed of managers of the firm itself, which lowers or eliminates their independence from management, and outside directors who have no ownership stake at the company, raising the issue of little incentive to monitor (Gedajlovic & Shapiro, 1998). In publicly traded family firms, a family member CEO is often the Chair of the board of directors as well (Miller et al., 2007), which can significantly lower the board's independence and further elevate family control over the firm.

Other Corporate Governance Mechanisms

Aside from the expected monitoring provided by the board of directors, other corporate governance mechanisms are used as checks and balances. This can include proxy fights (i.e. a shareholder proposes new candidates and persuades other shareholders to vote for them in order to replace ineffective board members), takeovers (i.e. a bidder acquires the control of an underperforming company and can replace, or at least control, the management), debt financing (i.e. debt as a bonding or commitment device disciplining management when management is willing to repay the debt), and large shareholders (i.e. one or several investors in the firm have substantial minority stakes) (Hart, 1995; Shleifer & Vishny, 1997).

Large Shareholders

Large shareholders can be particularly important in corporate governance since not all shareholders are able and willing to control management, but presume that owners with large stakes will oversee the management (Demsetz, 1983). More concentrated shareholdings by insiders provide a superior incentive and ability to monitor owing to a claim on all residual profit and control over the board of directors (Agrawal & Knoeber, 1996; Alchian & Demsetz, 1972; Bolton & Scharfstein, 1998; Gedajlovic & Shapiro, 1998). Hence, according to Gedajlovic and Shapiro (1998), concentrated ownership is a powerful constraint on managerial discretion.

In the U.S., shares in most large firms are relatively diffused, such that even the largest shareholder holds a modest stake in the company (Gedajlovic & Shapiro, 1998). US courts also intervene to ensure that shareholdings are dispersed (Morck & Steier, 2005). The US also has litigious shareholders and a well-developed corporate takeover mechanism, which can discipline or remove ineffective corporate insiders, including large shareholders (Morck et al., 2005). However, families tend to sustain or enhance their control by using control enhancing mechanisms, which protect controlling shareholders and managers' rights and create excess voting rights over their cash flow rights (Villalonga & Amit, 2006a, 2006b). An example for the controlling family's voting rights greatly exceeding its cash flow rights is the Ford Motor Co., where as of 1998, the Ford family owned only 6% of the shares, but owned 40% of the votes through utilizing dual-class shares (Villalonga & Amit, 2006b).

Family Involvement in the Corporate Arena

Family firms are distinguished from nonfamily firms and from each other by the amount and type of influence they choose to exert through the involvement of the family in firm ownership and management (Chrisman, Chua, & Sharma, 2005; Chua et al., 1999). Family involvement is significant "when a family owns all or a controlling portion of the business and plays an active role in setting strategy and in operating the business on a day-to-day basis" (Kelly et al., 2000: 27). Hence, ownership and management are important in determining the family's ability to exert its influence on a business (Sundaramurthy & Kreiner, 2008). Concentrated holdings by families in publicly traded firms tend to be universally common, despite legal restrictions on high levels of ownership (La Porta et al., 1999; Shleifer & Vishny, 1997; Villalonga & Amit, 2009). Family ownership and management may be particularly beneficial in corporate governance owing to easier monitoring, a concern for protecting the family's wealth, long-term orientation, reputation concerns, and lower cost of debt financing (Anderson & Reeb, 2003; Barth et al., 2005; Demsetz & Lehn, 1985; James, 1999; La Porta et al., 1999; McConaughy et al., 1998).

Classification of Governance Provisions

Governance provisions constitute an important part of corporate governance in today's corporate environment. In the 1980s, hostile takeovers and corporate raider activities emerged in the US, in contrast with previous lax corporate governance (Holstrom & Kaplan, 2001). Hostile takeovers are carried on by an outside entity by making a tender offer (i.e., a price for their stock, which is higher than the current market price) to shareholders of a target firm without involving the target's management and board (Davis, 1991). Once the raider firm acquires a substantial ownership position to exercise control, it may merge with the target firm, liquidate its assets to finance the takeover, replace top management and board, or sell off some of the divisions (Davis, 1991). Between 1980 and 1989, one-quarter of the firms in the *Fortune* 500 experienced a takeover or buyout attempt, which were mostly hostile and successful (Davis, 1991). Takeover threats constitute the source of external governance provided by the market for corporate control and discipline corporate management (Davis, 1991; Sundaramurthy et al., 1996; Cremers & Nair, 2005). As a result, takeovers benefit shareholders of target and acquiring companies through facilitating change and generating substantial gains (Jensen, 1988; Berkovitch & Narayanan, 1993; Cremers & Nair, 2005).

In the 1990s, hostile takeovers declined substantially, while at the same time executive stock options and the greater involvement of boards of directors and shareholders appeared in the corporate world. Through these changes, corporate governance mechanisms began to play a greater role (Holstrom & Kaplan, 2001). Gompers et al. (2003) suggest that governance provisions generally allow management to resist shareholder activism, and prevent or delay takeovers, as can be seen in Table 2.1.

Shareholder activism serves the purpose of encouraging executives and directors to adopt practices that protect shareholders from managerial self-interest by providing incentives for executives to manage firms in shareholders' long-term interests (Daily et al., 2003b). The activist shareholders tend to focus on the poorly performing firms in their portfolio and pressure the management of such firms for improvement of performance and shareholder value (Gillan & Starks, 2000). According to Daily et al. (2003b), shareholders with significant ownership often have the incentive and influence to bring about necessary changes. In the case of takeovers, a bidder, particularly a hostile one, often buys a firm and implements profit increasing changes (e.g. replacing managers who the board is unwilling or unable to discipline) against the wishes of both the board and the top management of the target firm. Families, who control publicly traded firms and are unwilling to let go of control, are expected to utilize control enhancing governance provisions in order to enhance and sustain their power.

Gompers et al. (2003) classify firms based on the frequency of the use of control enhancing governance provisions (G) and draw attention to the two extreme groups of firms. On the one hand, firms with higher frequencies of the use of provisions ($G \geq 14$) have the weakest minority shareholder rights. On the other hand, firms with lower frequencies of the use of provisions ($G \leq 5$) have the strongest minority shareholder rights. The frequency levels of the use of provisions at 6 through 13 indicate moderate levels of the shareholder rights. Gompers et al. (2003) find that broader shareholder rights are associated with higher firm value and profits, whereas, according to Pagano and Volpin (2005), weak shareholder protection allows insiders to extract private benefits of control.

A summary of the corporate governance literature can be seen in Appendix B. Firms are likely to differ from each other in their corporate governance concerning ownership, management, composition of board of directors, and other corporate governance mechanisms depending on the key controlling parties' preferences. Family firms are likely to exhibit unique corporate governance characteristics owing to the existence of controlling families and noncontrolling owners with different interests. Therefore, governance provisions need to be classified and investigated within the context of family firms. In the following section, governance provisions are classified accordingly.

According to Danielson and Karpoff (1998), firms tend to use governance provisions in groups. In line with Danielson and Karpoff's (1998) argument, Gompers et al. (2003) divide governance provisions into five groups based upon the purpose of their usage: tactics for delaying takeovers (delay), director/officer protection (protection), voting rights (voting), state laws (state), and other takeover defenses (other). However, the authors do not distinguish between family and nonfamily firms nor consider the differences between controlling family and noncontrolling owner groups and their distinct characteristics, interests, and rights. For example, controlling owners can decide “what businesses to enter and exit, what companies to acquire, what assets to sell, how much to invest, what officers and directors to select, how much to pay them, and how much money (if any) to distribute themselves and minority shareholders”, whereas noncontrolling owners’ rights are “to participate in dividend or other cash-flow distributions (that controlling owners decide on), and to benefit from capital gains (if there are any, and if the shares can be freely sold so that minority shareholders indeed realize those gains)” (Villalonga, 2008: 1,2). Controlling owners may pursue family-centered goals and strategies to achieve those goals, which may consequently be beneficial to the controlling family, but not to the noncontrolling owners and the firm in general, which can consequently harm firm performance. Hence, it is important to identify differences between family and nonfamily firms, examine family firm owners, managers, directors, and noncontrolling owners, and their propensity to use different types of governance provisions in order to have a better understanding of the corporate governance idiosyncrasies in publicly traded family firms.

The main purpose of this essay is to identify the differences between family and nonfamily firms in terms of the use of governance provisions. These provisions are classified into four categories based on their protecting the rights of different stakeholder groups with different interests (i.e. the controlling owners, management, non-controlling owners, and others involving a broad group of employees) in family firms (Table 2.1 and Appendix C).

Provisions Protecting Controlling Owners

These provisions enhance controlling owners' rights and power. They provide protection to the controlling owners by delaying the transfer of control to a raider or an acquiring firm through placing preferred stock with certain preferred shareholders, requiring a majority vote for the acquisition, requiring a waiting period for the raider company to acquire the target firm, making acquisition expensive or unattractive, diluting the potential acquirer's voting power, enhancing voting rights of controlling owners through concentrating controlling owners' votes or limiting non-controlling owners' rights, helping controlling owners elect directors, or elevating the value of controlling owners' shares, as can be seen in Appendix C and explained below.

These provisions are also sub-grouped based on different purposes of use such as enhancing voting rights (i.e. cumulative voting, unequal voting rights, and supermajority) and sustaining controlling status (i.e. poison pills, blank check, bylaw, charter, business combination laws, fair price provision, and antigreenmail). According to Davis (1991), these provisions both indicate and enhance controlling owners' influence on the business. Controlling owners who are able to adopt them already have substantial voice, and by having them in place, they buffer themselves from the market for corporate control by raising the barriers to particularly takeover (Davis, 1991).

<u>Provisions Protecting Voting Rights</u>

a) Unequal voting rights: Limit voting rights of some shareholders and expand those of others (Danielson & Karpoff, 1998; Gillan et al., 2003; Gompers et al., 2003; Bianco et al., 2005).

b) Cumulative voting: Allows shareholders to concentrate their votes and helps them to elect directors (Gordon, 1994; Mahoney et al., 1996; Brockington et al., 1998; Danielson & Karpoff, 1998; Sundaramurthy 2000; Gillan et al., 2003; Bianco et al., 2007).

c) Supermajority: Requires majority voting for approval of mergers (Agrawal & Mandelker, 1990; Davis, 1991; Bojanic & Officer, 1994; Mahoney et al., 1996; Sundaramurthy, 2000; Bebchuk et al., 2005; Bianco et al., 2007).

<u>Provisions Protecting Controlling Status</u>

a) Blank check: A preferred stock over which the board of directors (BOD) has broad authority to determine voting, dividend, conversion, and other rights. It is used to prevent takeovers by placing this stock with certain friendly investors (Agrawal & Mandelker, 1990; Ambrose & Megginson, 1992; Gillan et al., 2003; Cremers & Nair, 2005).

b) Business combination law: Requires a waiting period for transactions such as mergers between a large shareholder and the firm, unless the transaction is approved by the BOD (Gompers et al., 2003).

c) Poison pill: Gives the holders of the target firm's stocks the right to purchase additional stocks in the target at a steep discount and to sell shares at a premium if ownership changes. This makes the target unattractive or dilutes the acquirer's voting power. Shareholder approval is not required for the use of poison pills (Jensen, 1988; Mahoney et al., 1996; Bebchuk et al., 2005; Bianco et al., 2007).

d) Bylaw: Limit shareholders' ability to change the governing documents of the company (Gompers et al., 2003; Bebchuk et al., 2005).

e) Charter: Limit shareholders' ability to amend the governing documents of the company (Gompers et al., 2003; Bebchuk et al., 2005).

f) Fair price: Requires a bidder to pay to all shareholders the highest price paid to any during a period of time before the commencement of an offer. This makes an acquisition more expensive and unattractive to the bidder (Romano, 1987; Mahoney et al., 1997; Gillan et al., 2003).

g) Antigreenmail: Prohibits a firm's controlling owners/managers from paying a raider 'greenmail', which involves the repurchase of blocks of company stock, at a premium above market price, in exchange for an agreement by the raider not to acquire the firm. Eliminating greenmail may discourage potential bidders from considering the target firm for a takeover. Hence, while greenmail is used as an antitakeover measure, anti-greenmail can also be used as an antitakeover device (Mahoney et al., 1997; Danielson & Karpoff, 1998; Bianco et al., 2007).

Controlling families usually increase their power and voice by elevating their voting rights and creating a wedge between their voting rights and cash flow rights (Villalonga & Amit, 2006a, 2006b). Unequal voting rights can expand the controlling family's voting rights while limiting the voting rights of noncontrolling owners and cumulative voting can facilitate family's concentrating their votes and electing directors. Mergers or acquisitions can also be delayed or prevented by using supermajority provision requiring majority voting for the approval.

Additionally, a controlling family aiming to preserve family control over the firm (Gomez-Mejia et al., 2007) is expected to be willing to take anti-takeover actions such as delaying or preventing takeovers through issuing blank checks (i.e. placing preferred stock) for family members and/or family's well trusted particular business partners or investors. A required waiting period by business combination law can also prolong family control by delaying or preventing takeovers. Moreover, bylaw and charter amendment limitations restrict noncontrolling shareholders' ability to amend the governing documents of the company, which is also beneficial for the controlling family in preventing a change that may result in the loss or a decrease in family control. In addition, poison pills allow the target firm's shareholders to buy the shares of the target firm at a discount, which makes the target firm unattractive for the raider and dilutes the voting power of the raider. Since shareholder approval is not required for the use of poison pills, the controlling family can utilize this provision through being influential over management, who has the full discretion over poison pill usage decisions. Another way for families to extend their control is to make their firm unattractive and expensive for potential raiders. For those purposes, the controlling family can use fair price provision to make their firm expensive by requiring the acquirer to pay the highest price to all shareholders or use anti-greenmail to discourage potential bidders from bidding for a takeover.

Provisions Protecting Noncontrolling Owners

a) Cash-out laws: Shareholders can sell their stakes to a controlling shareholder at a price based on the highest price of recently acquired shares. It works as fair-price provisions extended to nontakeover situations (Danielson & Karpoff, 1008; Bianco et al., 2007).

b) Secret ballot: Confidential voting. Either an independent third party or employees sworn to secrecy count proxy votes and management does not look at proxy cards. This indicates an increase in shareholder rights (Danielson & Karpoff, 1998; Bianco et al., 2007; Jiraporn & Gleason, 2007).

These provisions increase value of noncontrolling owners' shares in case of selling shares to a controlling owner and ensure the secrecy of voting. Hence, the use of these provisions may increase noncontrolling owners' rights. However, since the use of these provisions can diminish controlling owners' power substantially while increasing noncontrolling owners' rights, families preferring to maintain family control are expected to be less likely to use them than nonfamily firms.

Provisions Protecting Management and Directors

These provisions enhance management's and directors' power and rights. As can be seen in Appendix C and explained below, these provisions protect managers and directors' positions, protect their monetary benefits, and protect them against legal actions. These mechanisms do this by requiring extra time to replace the management and/or board of directors and providing monetary benefits to senior executives and directors in case of a change of control, limiting the managers' and directors' personal liability, and enabling the board of directors to reject or delay takeovers even though they may be beneficial to non-controlling shareholders. Classified board, director's duties, special meeting, and written consent delay or prevent takeovers or proxy fights. Compensation plans, golden parachute, and severance provide executives and directors monetary compensation and nonmonetary benefits that assure the continuity of their position in case of a change in control. Contracts, indemnification, and limitations on director's liability indemnify executives and directors from legal liabilities. Hence, these provisions are subgrouped into provisions protecting managers and directors in terms of their positions in the firm and protecting them monetarily and legally.

Provisions Protecting Managers and Directors' Positions

a) Classified board: The board is split into different classes, with only one class up for election in a given year. Hence, an outsider who gains control of a corporation may need to wait a few years in order to be able to gain control of the board (Agrawal & Mandelker, 1990; Bojanic & Officer, 1994; Sundaramurthy, 2000; Bebchuk & Cohen, 2005; Faleye, 2007)).

b) Special meeting: Limitation of the ability to call a special meeting. This adds more time to proxy fights since bidders must wait until the regularly scheduled annual meeting to replace BOD or dismantle takeover defenses (Danielson & Karpoff, 1998; Gillan et al., 2003; Cremers & Nair, 2005; Bianco et al., 2007).

c) Written consent: Limitations on certain actions through the requirement of unanimous consent or the elimination of the right to take action. These add extra time to proxy fights since bidders must wait until the regularly scheduled annual meeting to replace BOD or to dismantle takeover defense (Gillan et al., 2003; Cremers & Nair, 2005; Bianco et al., 2007).

d) Director's duties: Allows directors to consider interests of nonshareholders when voting for a merger. This provides BOD with a legal basis for rejecting a takeover that would have been beneficial to shareholders (Gillan et al., 2003; Bianco et al., 2007).

Provisions Protecting Managers and Directors Monetarily

a) Compensation plans: In case of a change in control, this provision allows participants of incentive bonus plans to cash out options or accelerate the payout of bonuses (Gompers et al., 2003).

b) Golden parachute: Severance agreements that provide cash or noncash compensation to senior executives upon an event such as termination, demotion, or resignation following a change in control (Jensen, 1988; Davis, 1991; Sundaramurthy, 2000; Bebchuk et al., 2005).

c) Severance: Agreements assuring executives of their positions or some compensation and are not contingent upon a change in control (Gompers et al., 2003).

Provisions Protecting Managers and Directors Legally

a) Contracts: Indemnifies officers and directors from legal expenses and judgments resulting from lawsuits (Gompers et al., 2003).

b) Indemnification: To indemnify officers and directors from certain legal expenses and judgments resulting from lawsuits pertaining to their conduct (Danielson & Karpoff, 1998; Bianco et al., 2007).

c) Limitations on director liability: Limit directors' personal liability (Gompers et al., 2003).

Management in family and nonfamily publicly traded firms are likely to use different subgroups of the provisions protecting managers according to their distinct primary interests. Family firm managers and directors are expected to be particularly concerned with maintaining their positions in the firm owing to their long-term orientation (James, 1999a; Miller & Le Breton-Miller, 2005) and desire for preservation of family control in the business (Gomez-Mejia et al., 2007), whereas nonfamily managers may be more concerned with monetary and legal protection. Additionally, the provisions protecting managers and directors in terms of their positions in the firm protect controlling owners indirectly since they delay or prevent takeovers. Indeed, the protection of managers' and directors' positions can enable the controlling family to continue to exert influence over the business through management.

Provisions Protecting Others

a) Pension parachutes: To prevent an acquirer from using surplus cash in the pension fund of the target firm (Gompers et al., 2003).

b) Silver parachutes: To provide severance payments to a large number of firm's employees upon a change in control (Gompers et al., 2003).

These provisions provide severance payments and secure the pension fund to a broader group of employees of the target firm in case of an acquisition. Because these provisions make a takeover more expensive for the bidder, family firms are expected to utilize these provisions in order to protect controlling owners and management indirectly. The expected use of these provisions is also in line with research suggesting family firms' greater employee care and loyalty (Donckels & Frochlich, 1991; Habbershon & Williams, 1999; Ward, 1988). Family firms with greater concern for employees' wellbeing (Habbershon & Williams, 1999) and the positive image and reputation of the family (Miller et al., 2008) are likely to use these provisions more than nonfamily firms do.

This essay will investigate the provisions based on different purposes of use (i.e. protecting controlling owners, noncontrolling owners, management, and directors, and others, as can be seen in Table 2.1 and Appendix C) owing to the idiosyncrasies of the publicly traded family firm context and the distinctiveness of each group, their interests, and rights. The value of the shares of these different groups also vary based on their different rights, which are priced in capital markets (Morck et al., 2005; Villalonga, 2008). As discussed in the following hypotheses development section, family firms are expected to use certain provisions more than nonfamily firms do in order to be able to exert family influence on the business, maintain family control, and limit noncontrolling owners' activism.

Hypotheses Development

The model illustrates how the frequencies of different types of control enhancing governance provisions used by family firms are likely to differ from those of nonfamily firms (i.e. how family ownership affects the frequency of the use of governance provisions and how family management moderates these relationships), as can be seen in Figure 1. Hence, the main concern in this essay is to explain the use of governance provisions by publicly traded family firms.

Family Involvement and the Use of Governance Provisions

The use of governance provisions differ across firms owing to firm-specific and industry-level factors and different costs and benefits associated with them (Gillan et al., 2003). Publicly traded family firms are expected to differ from nonfamily firms in terms of the frequency of the use of different types of governance provisions owing to different constituent groups and their distinct interests. There may be controlling owners and/or management in both family and nonfamily firms (Brecht et al., 2005). However, their composition in each firm context is different. In family firms, controlling owners are composed of the family members and management is composed of family members and nonfamily members likely to be trusted by the controlling family (Brecht et al., 2005). In nonfamily firms, management tends to control the firm since the shareholders are often dispersed (Berle & Means, 1936; Demsetz, 1983). When there is an individual or institution as a blockholder, their interests are also likely to differ from those of a controlling family.

Family Ownership and Protection of Controlling Owners

In family firms, family members are by definition the controlling owners and they are often involved in management and board of directors as well (Miller et al., 2007). Through higher levels of ownership and control, families have substantial discretion to exercise property rights as they want (e.g. alter, modify, or destroy, and appropriate rents) (Gedajlovic et al., 2003). In some cases, family owners may prefer to play only the role of investor and use professional nonfamily managers if they are not able or willing to manage the firm themselves.

However, in nonfamily firms, ownership and management are often separated. Dispersed owners with relatively little ownership share usually do not participate in management and the board. Since there is no controlling owner, the management holds the control power (Morck et al., 2005). In some instances, an individual or an institution may be a blockholder (i.e. large shareholder) in nonfamily firms (Becht et al., 2005) and this individual or group may be involved in management and/or board as well. Whether dispersed or blockholder, the ownership in nonfamily firms tends to possess different interests than the family-centered interests of controlling families in publicly traded firms.

In family firms, the controlling owners' interests are largely focused on the preservation of the ownership control of the family. In extreme cases of preservation of family control and socioemotional wealth, families may even be willing to forego the possibility of higher firm performance (Gomez-Mejia et al., 2007). To be able to pursue family-oriented goals and preserve family control, family owners are likely to attempt to insulate themselves from noncontrolling shareholder activism through enhancing the controlling family's voting rights and sustaining their controlling status. Hence, family firms are expected to utilize control enhancing governance provisions, which can primarily elevate their power through voting rights in excess of cash-flow rights and sustain their controlling owner status in order to be able to reflect the family's vision into business practices and to pass their family legacy to future generations.

Conversely, nonfamily firms are likely to use provisions that protect their status, position, and power less frequently than family firms, owing to the shareholders' short-term orientation. Family owners' concern for the preservation of family control over the business is rooted in their long-term orientation with considerations for the family's future in terms of income, jobs, and security (Miller & Le Breton-Miller, 2005a, 2005b). In long-term oriented family firms, family members tend to refrain from the pursuit of short-term personal gains for the long-term well-being of the family firm and invest in the business for continued prosperity and growth (Gómez-Mejía et al., 2007; Miller et al., 2008, 2010). Owing to the concern for the long-haul and dynastic thinking (Bertrand & Schoar, 2006), family firm leaders often refrain from following faddish trends (Craig et al., 2008), instead envision a longstanding family firm with continuous family involvement and steadfast investment strategies.

However, after an optimum level of ownership is reached, families may not be concerned with the further enhancement of voting rights and controlling status since the higher levels of ownership will naturally provide them substantial voting rights and allow them to exert and maintain control over the firm. Hence, after a certain point of family ownership, family owners' frequency of the use of provisions protecting controlling owners' voting rights (i.e. unequal voting rights, cumulative voting, and supermajority) and controlling status (i.e. blank check, business combination laws, poison pill, bylaw and charter, and fair price) is likely to diminish.

Hypothesis 1a. Family ownership will have an inverted u-shaped relationship with the frequency of the use of governance provisions protecting controlling owners' voting rights.

Hypothesis 1b. Family ownership will have an inverted u-shaped relationship with the frequency of the use of governance provisions protecting controlling owners' controlling status.

Family Ownership and Governance Provisions

Protecting Noncontrolling Owners

Governance provisions protecting noncontrolling owners (i.e. cash-out laws and secret ballot) tend to empower them at the expense of the family owners' controlling power. Cash-out laws allow shareholders to sell their stakes to a controlling shareholder at a price based on the highest price of recently acquired shares. Secret ballot placing confidentiality on shareholders' voting can facilitate the ability of noncontrolling shareholders to make decisions against the controlling family's will without fearing retaliation.

Since the empowerment of noncontrolling owners requires controlling owners to compromise control and power, family owners may not be willing to use them. Indeed, family owners tend to be generally unwilling or reluctant to dilute their control of the firm to nonfamily members (Gedajlovic et al., 2004). Additionally, if noncontrolling owners are empowered, they can initiate proxy fights (Hart, 1995) and replace top management team members and board of directors. Accordingly, Burkart et al. (2003) argue that families usually desire to maintain control as long as they can. However, they may be willing to let go of control in case of a need to raise capital, or the death of the founder, or to avoid high inheritance taxes (Burkart et al., 2003).

In addition, the preservation of family control facilitates reputational benefits in both economic and political markets. If family control is diminished, the family may compromise its well established family firm image and reputation as well as political connections (Burkart et al., 2003). These may constitute the rationale for families' "hanging on the control too long" (Cronqvist & Nilsson, 2003).

Hence, controlling family owners are expected to restrict noncontrolling owners' influence on the firm and insulate themselves from noncontrolling owners' activism through the relatively less use of provisions protecting noncontrolling owners. However, in nonfamily firms, since the noncontrolling owners are the majority with substantially less power than that of management, they may be more prone to have these provisions in place to enhance their voice over the dominant management.

Hypothesis 2. Family ownership will be negatively associated with the frequency of the use of governance provisions protecting noncontrolling owners.

Family Ownership and Protection of Managers and Directors

Family Ownership and Protection of Managers and Directors' Positions

In family firms, the controlling owners are also concerned with the protection of rights of management since family owners are often involved in management by appointing family members as CEO, Chairman of the board, or director of the board (Morck et al., 2005). Even if family owners are not actively involved in management, they are expected to exert influence in management and on the board through the appointment of well trusted nonfamily managers and affiliate directors (Combs et al., 2008; Gedajlovic et al., 2004; Jones et al., 2008; Morck et al., 2005). According to Herman (1981), the dominant owners tend to select managers and directors, if they don't occupy these positions themselves. Indeed, family business members usually prefer business relationships and contacts with certain trustworthy individuals owing to their personalistic and particularistic tendencies (Carney, 2005) and higher levels of family ownership and management can allow a controlling family to do so. A manager or director selected by the family is likely to be friendly and helpful, rather than critical. At the same time, they can also guide family firms to implement growth strategies such as diversification through an advisory role without the threat of loss of family control (Jones et al., 2008). Hence, they are expected to represent the family by exhibiting similar values and aspirations to the family owners and managers owing to their compliance and commitment to the controlling family rooted in their personal ties and also encourage growth owing to their sense of obligation and reciprocity to the family. This can allow family to be indirectly involved in management and board with similar organizational outcomes to that of being directly involved.

Therefore, the family owners would desire the management team, which may include family or nonfamily members, to maintain their positions to facilitate the family's sustained influence over the business and pursuance of the family-centered goals. Hence, governance provisions protecting managers' positions indirectly serve the purpose of protecting controlling owners as well. Additionally, the controlling family with perceptions of top management team benevolence rooted in family ties and acquaintances may feel compelled to reciprocate by using governance provisions that protect top management team members positions in the firm (Cruz et al., 2010). Hence, as family ownership increases, the frequency of the use of governance provisions protecting managers' positions will increase[1] even if the family is not actively involved in management. Additionally, the ownership rights of the family can provide them the unchallenged discretion and power to utilize provisions protecting managers and directors.

Hypothesis 3a. Family ownership will be positively associated with the frequency of the use of governance provisions protecting managers' positions.

Family Ownership and Monetary Protection of Managers and Directors

Relative to nonfamily owners, controlling family owners are expected to be driven more by intrinsic rewards (Davis et al., 1997; Deci & Ryan, 1985) such as family control, power, status, and prestige than by extrinsic rewards such as compensation involving salary and benefits. With the future generations in their minds, controlling families tend to make strategic decisions and use firm resources carefully and parsimoniously (Carney, 2005; Gedajlovic et al., 2004).

Family business owners' parsimonious tendencies often result in lower executive compensation to family executives (Combs et al., forthcoming; Gomez-Mejia et al., 2003), lower dividends, or profit sharing (Miller & Le Breton-Miller, 2005a, 2005b). However, executives with family ties tend to have greater job security and guaranteed

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1 However, when family members are actively involved in management, this will not prevent the controlling family from blaming and penalizing the nonfamily managers/directors, rather than family managers, in case of a setback in firm performance (Gomez-Mejia et al., 2001). Furthermore, family firms in the process of grooming heirs/heiresses for executive positions will also often follow a "seat-warmer strategy" by temporarily hiring an interim non-family manager until a qualified family member becomes available to take over (Klein & Bell, 2007; Lee et al., 2003).

stream of future compensation despite lower overall compensation (Gomez-Mejia et al., 2001, 2003). Indeed, family executives are less likely to compete in external managerial labor markets owing to their “family handcuffs” and emotional attachment to their firms (Gomez-Mejia et al., 2001, 2003). Accordingly, McConaughy (2000) shows that founding-family CEOs are paid less and receive fewer compensation-based incentives than nonfamily CEOs since they have superior incentives deriving from their position and require less compensation and incentive pay to align their interests with the family controlled firm than do nonfamily CEOs.

Additionally, as family ownership increases, families will be wealthy enough not to be driven by monetary gains or incentives primarily. In extreme cases outside the U.S., some dynastic wealthy families tend to have more interest in maintaining status quo through preserving old capital rather than being innovative and actively participate in the political arena to influence public policies, which consequently prevent capital mobility and retard economic growth in a broader sense (Morck et al., 1998, 2005; Morck & Yeung, 2003; Morck & Steier, 2005). Indeed, after an optimum level of wealth has been achieved, family owners may prefer to pursue private benefits of control, rather than economic goals (Bertrand & Schoar, 2006). Accordingly, a recent study by Chen and Hsu (2009) shows that family ownership is negatively associated with R&D investment. The authors also show that R&D investment in family firms may increase when the CEO and Chair of the board roles are separated or when more independent outsiders are involved in the board. Also, Short et al. (2009) suggest that family firms may exhibit less autonomy, proactiveness, and risk taking propensities.

In nonfamily firms, executives and boards tend to have more voice than dispersed shareholders and are concerned with insulating themselves from shareholder interference and maximize their monetary gains. Personal connections of the managers and boards with the dispersed owners tends to be minimal, if they exist at all. Accordingly, an executive's link to publicly traded firm is expected to be primarily pecuniary, rather than intrinsic. As a result, executives' compensation is often tied to firm performance (Murphy, 1985). According to Becht et al. (2005), an executive's compensation package is typically composed of a salary, a bonus tied to short run performance (e.g. accounting profits), and a stock participation plan (e.g. stock options). The package also includes pension rights and severance pay often in the form of golden parachutes. Managers in nonfamily firms may be more concerned with monetary gains as an extrinsic reward than family or family-acquainted managers in family firms, which exhibit personalistic and particularistic propensities (Carney, 2005). Accordingly, family firms tend to offer greater intrinsic rewards such as job security and promotion opportunities to kin and to those acquainted to kin particularly at higher levels of family ownership and management where the controlling families have more discretion and power to do so (Gomez-Mejia et al., 2003). Also, contrary to controlling families' parsimonious tendencies, executives in nonfamily firms, who bear less risk than controlling owners and are driven by short-term monetary gains, may lead their firms into overinvestment or overexpansion creating complexity and higher sales, which can justify their higher compensation (Jensen, 1986) and enhance their power, prestige, and indispensability. Indeed, a concentration of the family's wealth in a single organization generates more risk bearing for family executives than that of executives in nonfamily firms (Gomez-Mejia et al., 2010; Wiseman & Gomez-Mejia, 1998).

Moreover, unlike managers in family firms, the horizons of nonfamily firm executives' are limited to the length of their tenure, which is usually not predictable. Hence, executives in nonfamily firms may not be primarily driven by the preservation of power and control as are family owners and managers to which they are willing to accept a performance hazard risk. Since tangible indicators such as their current compensation level and firm performance, rather than intangible indicators such as power and control, may be considered as a benchmark or a reference point for their future career opportunities that may be captured by transferring to other firms, they may be driven by elevating their monetary earnings and firm performance. Managers in nonfamily firms are able to maximize their monetary gains since they hold the control power unlike dispersed minority shareholders, whereas family owners tend to have substantial property rights that allow them to have a say in monetary decisions and be parsimonious generally. Since family managers do not tend to be as concerned about career opportunities outside the family firm, they do not need to create a high reference point for future compensation at other organizations.

> Hypothesis 3b. Family ownership will be negatively associated with the frequency of the use of governance provisions protecting managers monetarily.

Family Ownership and Legal Protection of Managers and Directors

Controlling families are also driven by maintaining a positive reputation (Dyer & Whetten, 2006). Unlike non-family firms, family firms are concerned that a bad reputation could "soil the good name of the family" (Dyer & Whetten, 2006: 791). Hence, family firm leaders tend to make a concerted effort to build a positive organizational image and reputation (Miller et al., 2008). This makes family leaders more apt to avoid questionable or irresponsible business practices (Dyer & Whetten, 2006). As noted earlier, Berrone et al. (2010) show that family firms voluntarily adopt environment-friendly policies and risky environmental investments beyond regulatory requirements owing to their noneconomic goals such as maintaining family legacy and prestige and accumulating social capital.

Additionally, family members' pride deriving from a positive reputation of themselves and their firm enables them to police one another's behavior (Sundaramurthy and Kreiner, 2008). Close monitoring and control by family owners also elevate the quality of products or services and help build relational or goodwill trust with stakeholders (Poppo & Zenger, 2002; Sako, 1991; Tagiuri et al., 1996; Ward & Aronoff, 1991; Weigelt & Camerer, 1988). Indeed, family businesses seem to develop and sustain strong relationships with internal and external stakeholders (Aronoff & Ward, 1995; Dick & Basu, 1994; Habbershon et al., 1999; Lyman, 1991) that help to establish a strong positive image, which can lower the possibility of wrongdoing and litigation.

Family members also know that they cannot switch families if their family firm's reputation, to which family identity is intertwined, is damaged (Dyer & Whetten, 2006). Accordingly, research suggests that individuals who strongly identify with their organizations feel responsible for the organization (Dipboye, 1977) and exhibit helpful and supportive behaviors to their firms (Dutton et al., 1994). Owing to family members' higher levels of identification with the firm, they exhibit a stronger emotional attachment to the firm, which enhances their organizational commitment and involvement (Minichilli et al., 2010). Organizational identification, emotional attachment, and commitment to the firms are likely to lower mishaps and possible law suits involving family firms.

In contrast, internal monitoring in nonfamily firms is often not as effective as in family firms owing to the separation of ownership and management (Berle & Means, 1936; Demsetz, 1983). Furthermore, owing to their lack of or limited personalistic and particularistic propensities, managers in nonfamily firms may be less likely to identify with their firms. Therefore, an executive in a nonfamily firm is expected to keep his/her individual identity and firm identity separate. Hence, maintaining a positive firm reputation in the long-run may not be as great of a concern for nonfamily executives and directors. This may increase their propensity to engage in wrongdoings. For example, a study by Burns and Kedia (2006) shows that the sensitivity of the CEO's option portfolio to stock price is significantly positively related to the propensity to misreport, which is an principal-agent type of agency problem in the form of moral hazard. Hence, executives and directors in nonfamily firms will also be concerned with minimizing their legal liability from possible wrongdoing and the consequent law suits, whether they are personally at fault or not. The limited liability and indemnification from legal expenses and judgment in case of a lawsuit can help executives and directors protect themselves in the case of inappropriate behavior in a firm and move onto other career opportunities in other firms without any interruption or financial and/or legal harm to themselves, regardless of losses to the firm and diminished shareholder value.

Family owners' higher levels of ownership can allow close monitoring and provide a long-term orientation. Image and reputation concerns may inhibit them from being involved in wrongdoings and managerial mishaps. If so, legal protection for managers and directors may not be essential. Indeed, families tend to establish cohesive organizational environments as "their personal values and ethics are deeply embedded in their company and reflected in all its behavior" (Miller & Le Breton-Miller, 2005: 521). The core ethical concern for families tends to be making contributions that count and will reflect well on a controlling family and its future generations (Miller & Le Breton-Miller, 2005). Controlling families' building relationships with internal and external stakeholders based on generosity, trustworthiness, and high ethical standards can diminish the possibility of wrongdoings and hence the concerns for legal protection. Trust among family business members, which is often extended to include trustworthy nonfamily business associates, can be a substitute for contractual enforcement and prevent mishaps (Bertrand & Schoar, 2006), which may consequently lower legal liability concerns.

Hypothesis 3c. Family ownership will be negatively associated with the frequency of the use of governance provisions protecting managers legally.

Family Ownership and Protection of Others

Governance provisions protecting others provide severance payments and secure the pension fund to a broader group of employees of the target firm in case of an acquisition. Since these provisions make a takeover more expensive for the bidder, family firms are expected to utilize these provisions in order to protect controlling family owners indirectly. The expected use of these provisions is also in line with research suggesting family firms' greater employee care and loyalty (Donckels & Frochlich, 1991; Habbershon & Williams, 1999; Ward, 1988). According to Miller and Le Breton-Miller (2005: 521), since controlling "families so cherish the firm, they also treasure those who staff it and sustain it". Hence, they generally treat their employees well. Owing to the duality of benefits associated with the use of these provisions (i.e. greater employee care and takeover/acquisition repellence), family owners are likely to utilize them.

Hypothesis 4. Family ownership will be positively associated with the frequency of the use of governance provisions protecting others.

Moderation Effects of Family Management

According to Schulze and Gedajlovic (2010), studies have not always distinguished between the different effects of family ownership and family management. On the one hand, family owners may desire to govern their firms in certain idiosyncratic ways. On the other hand, family's involvement in management can facilitate family owners' governing their firms in the ways they desire.

In some cases, family management may not always accompany family ownership. Indeed, some family owners may not be willing and/or able to be involved in management and prefer to play the investor role. However, it is uncommon for families to be solely involved in management without any ownership. Therefore, in this essay, family management is distinguished from family ownership and investigated as a moderator in the relationship between family ownership and the frequency of the use of governance provisions owing to its strengthening family owners' ability and willingness to adopt and utilize governance provisions that may primarily meet the family's needs.

Family involvement in management can legitimize family owners' authority and empower family owners to take actions benefiting the family. When more family members are involved in management and the board, the resistance of nonfamily managers or noncontrolling owners to controlling family's decisions and actions will be less effective. Hence, family owners' and management's goals are expected be aligned (Chrisman et al., 2010). This can enhance the owners' ability to protect their voting rights, controlling status, management, directors, and others and limit noncontrolling owners' rights through the adoption and the use of governance provisions serving these purposes.

Without active participation in management, family owners' influence over management and the board to adopt the provisions exclusively serving the family's needs may not be as substantial. Also, when family owners prefer not to use certain provisions, which may interfere with the sustainability of family control or may not be needed by the family owing to higher levels of equity ownership position, family's involvement in management will enable them not to use such provisions. For example, family management will strengthen the ability of family owners' use of provisions protecting controlling owners through voting rights up to an optimum ownership level and then after the optimum level, family management will strengthen family owners' ability not to use those provisions. Similarly, family management will strengthen the ability of family owners' use of provisions protecting controlling owners through sustaining controlling status up to an optimum ownership level. Then, after this optimum level, family management will strengthen family owners' ability not to use those provisions since family owners simply may not need them at higher ownership levels. Hence, family management will strengthen the effects of family ownership on the frequency of the use of governance mechanisms. In inverted u-shaped relationships, this will result in a shift of the inverted u-shaped curve through a shift of the optimal point.

Hypothesis 5a. Family management will moderate the inverted u-shaped relationship between family ownership and the frequency of the use of governance provisions protecting controlling owners through voting rights, such that family management will strengthen the positive effects of family ownership on the frequency of these governance provisions up to an optimum level, and then strengthen the negative effects of family ownership on the frequency of the use of these provisions after the optimum level.

Hypothesis 5b. Family management will moderate the inverted u-shaped relationship between family ownership and the frequency of the use of governance provisions protecting controlling owners through sustaining their controlling status, such that family management will strengthen the positive effects of family ownership on the frequency of these governance provisions up to an optimum level, and then strengthen the negative effects of family ownership on the frequency of the use of these provisions after the optimum level.

Hypothesis 5c. Family management will moderate the relationship between family ownership and the frequency of the use of governance provisions protecting noncontrolling owners, such that family management will strengthen the negative effects of family ownership on the frequency of the use of these governance provisions.

Hypothesis 5d. Family management will moderate the relationship between family ownership and the frequency of the use of governance provisions protecting management and directors in terms of their position, such that family management will strengthen the positive effects of family ownership on the frequency of the use of these governance provisions.

Hypothesis 5e. Family management will moderate the relationship between family ownership and the frequency of the use of governance provisions protecting management and directors monetarily, such that family management will strengthen the negative effects of family ownership on the frequency of the use of these governance provisions.

Hypothesis 5f. Family management will moderate the relationship between family ownership and the frequency of the use of governance provisions protecting management and directors legally, such that family management will strengthen the negative effects of family ownership on the frequency of the use of these governance provisions.

Hypothesis 5g. Family management will moderate the relationship between family ownership and the frequency of the use of governance provisions protecting others, such that family management will strengthen the positive effects of family ownership on the frequency of the use of these governance provisions.

Methodology

Data Collection

Panel data regarding governance provision usage in firms was obtained from a larger project designed to investigate all the companies incorporated in the U.S. in the Investor Responsibility Research Center books in terms of their usage of 22 (business combination law and cash-out laws were missing in the dataset) out of 24 control enhancing governance mechanisms (Gompers et al., 2003). Accounting, market, ownership, and management data was obtained from Thompson Reuters Thompson One Corporate Development database. Family business members were identified by using the Hoover's database and annual reports in Mergent Online. Data was analyzed on a restricted sample of firms based on publicly available data for the lag years 2001, 2003, and 2005 regarding ownership, management, and control variables and the years 2002, 2004, and 2006 regarding the frequency of the use of governance provisions.

Consistent with previous studies investigating publicly traded family firms, the sample came from the first 400 firms listed in *S&P* 500 (e.g., Anderson & Reeb, 2003a, 2003b, 2004; Short et al., 2009; Combs et al., forthcoming). Missing data brought the sample size to 386. *S&P* 500 stock market index is maintained by Standard & Poor's and involves 500 large-cap U.S. firms covering about 75% of the U.S. equity market. First, this sample includes both family and nonfamily firms. Anderson and Reeb (2003a) suggest that families are present in one-third of the *S&P* 500. Second, family firms among the population are likely to have substantial number of nonfamily shareholders unlike privately held firms. Hence, this sample is representative of the publicly traded family and nonfamily firm population.

Variables

Dependent Variables

The dependent variables were 7 categories of governance provisions that group the 22 available provisions in the database (data regarding the use of Business Combination Law and Cash-out Laws were missing in the dataset) according to the purposes of their usage by firms. Judgment-based categorization (Perreault & Leigh, 1989) of the governance provisions was used. The validity of this categorization was confirmed by three expert judges who assessed the degree to which the provisions represent the categories (Netemeyer et al., 2003).

The first dependent variable was the *frequency of the use of governance provisions protecting controlling owners through voting rights (VOTING).* The years were 2002, 2004, and 2006 for the dependent variables. This variable involved the following provisions: (1) Unequal voting rights, (2) Cumulative voting, and (3) Supermajority. The second dependent variable was the *frequency of the use of governance provisions protecting controlling owners through sustaining control status (STATUS)* and included the following provisions: (1) Blank check, (2) Poison pill, (3) Bylaw, (4) Charter, (5) Fair price, and (6) Antigreenmail. The third dependent variable, the *frequency of the use of governance provisions protecting noncontrolling owners (NONCONTROLLING)* included provisions concerning: (1) Secret ballot. The fourth dependent variable was the *frequency of the use of governance provisions protecting* *management and directors in terms of their position (POSITION).* This variable involved the following provisions: (1) Classified board, (2) Special meeting, (3) Written consent, and (4) Director's duties. The fifth dependent variable, the *frequency of the use of governance provisions protecting management and directors monetarily (MONETARY)* included provisions concerning: (1) Compensation plans, (2) Golden parachute, and (3) Severance. The sixth dependent variable was the *frequency of the use of governance provisions protecting management and directors legally (LEGAL).* This variable involved the following provisions: (1) Contracts, (2) Indemnification, and (3) Limitations on director liability. The seventh dependent variable was the *frequency of the use of governance provisions protecting others (OTHERS)* involving provisions: (1) Pension parachutes, and (2) Silver parachutes.

In a given year, provisions that were used by a firm were coded as "1" and provisions not used are coded as "0". The frequency of the use of each category was calculated by adding usage/no usage figures (i.e. 1/0) in each category. For robustness tests, particularly when one provision group (i.e. NONCONTROLLING) included only one provision due to missing provision data, categorical provision group variables were also included (1 = At least one mechanism is used; 0 = None).

Independent Variables

Family ownership (FO) is the percentage of equity ownership held by members of a family. In addition, the *squared family ownership (FO^2)* variable was used to indicate nonlinear relationships between the independent variable (FO) and the dependent variables. The years were 2001, 2003, and 2005 for the independent variables.

Moderators

Family management (FM) is the number of family members serving in the top management and/or the board of directors of a firm. Family members participating in both management and board are only counted once. The consideration for the family's participation in management as well as the board follows Astrachan et al. (2002), Handler (1989) and Zahra (2003). For robustness tests, the proportion of number of family managers and board of directors *(PFM)* to total number of managers and board of directors was also calculated. The years were 2001, 2003, and 2005 for the moderator.

Control Variables

Variables that were expected to influence the frequency of the use of different categories of governance provisions were controlled. As firms grow in size, firms may be more likely to use control enhancing corporate governance provisions to sustain control (Gompers et al., 2003). *Firm size (FS)* was controlled and measured via the log of the number of employees following Dewar and Dutton (1986). Similarly, as the firm ages, a firm gets more established and becomes more likely to use corporate governance tools in order to sustain control. Hence, *firm age (FA)* was controlled and measured as the number of years the firm has been in existence since founding (Davis & Harveston, 2000). Moreover, the use of governance provisions may be more frequently used in certain industries. *Primary firm industry (FI)* was measured by classifying all firms into one of four industrial categories: (1) retail, (2) service, (3) manufacturing, and (4) other, following Chrisman et al. (2010). Three categorical variables, coded 1-0, were created to indicate retail, service, and manufacturing firms. Firms in other industries were coded as zero for each variable. For further specification of industry, four-digit SIC codes and sector names were also identified and entered for each firm. Additionally, *generational majority in management and board* was controlled because family influence tends to be weaker when family influence is more dispersed or fractionalized owing to the involvement of later generations (Schulze et al., 2003; Gomez-Mejia et al., 2007). Two categorical variables, coded 1-0, were created to indicate either first generation *(GEN1)* or second generation or later *(GEN2)*. Nonfamily firms were those that were coded as zero for each of these two variables.

Institutional owners such as mutual or pension funds may also play a significant role in corporate governance (Anderson & Reeb, 2004) concerning the use of provisions. *Institutional ownership (IO)* is the percentage of overall institutional ownership of shares outstanding. Similarly, other insiders' ownership can influence corporate governance (Anderson & Reeb, 2004). Hence, *other insiders' ownership (OIO),* which is the equity holdings of top managers and directors (minus family managers' and directors' ownership), was controlled to capture the incentive effects of other insiders' ownership (Anderson & Reeb, 2004).

Firm risk may be another factor that can influence the use of governance provisions because higher levels of firm risk may make firms more susceptible to takeovers and those firms may utilize governance provisions for takeover defense. *Firm risk (FR)* was measured as the standard deviation of stock returns for the previous 60 months following Anderson and Reeb (2003a, 2003b). The years were 2001, 2003, and 2005 for the control variables.

Analyses

Table 2.2 provides the means, standard deviations, and correlations of the variables used in the study. Tables 2.3-2.9 present the results of the Fixed Effects Tobit Models, with the frequency of the use of different types of provisions, as the dependent variables.

Hypotheses 1a through 5g were tested via Tobit panel data analysis for lag years which are 2002, 2004, and 2004 for the dependent variables and 2001, 2003, and 2005 for the controls, independent variables, moderator, and interactions. NLOGIT version 4.0 Econometric software was used. The Fixed Effects Tobit estimation model was used to control for omitted variables that differ between cases but are constant over time, whereas a random effects model was used when some variables may be constant over time but vary between cases and some variables may be fixed between cases but vary over time. NLOGIT4 selected the estimation model as the Fixed Effects estimation model. Tobit Fixed Effects estimation was used owing to the existence of a large number of variables with values of zero (Maddala, 1991). Prior to running the analyses, the variables' distributions were examined by graphing the distributions and examining the skewness and kurtosis in Excel. Additionally, Variance Inflation Factors for the variables were calculated. VIFs range between 1.10 and 3.24. Collinearity was not a problem since all VIFs were less than 10.

The number of observations in the panel data analysis was 1,158 (i.e. 386 * 3 = 1,158) since the lag years 2001, 2003, and 2005 regarding ownership, management, and control variables and the years 2002, 2004, and 2006 regarding the frequency of the use of governance provisions were investigated for 386 firms. G*Power software was used for power analysis. The post-hoc test computed achieved power given alpha (0.05), sample size (1,158), and conventional small (0.10), medium (0.30), and large (0.50) effect sizes. Even at small effect size, power was .96, giving confidence that there was enough power to detect even small effects. Conventionally, in social sciences, 80% and higher power at up to 0.10 alpha level is acceptable (Cohen, 1988).

As shown in Table 2.3, when the dependent variable was the frequency of the use of provisions protecting controlling owners through enhancing voting rights *(VOTING)*, Model 1 was the base model where I entered the set of control variables. First generation's majority in management and/or board, second (or after) generation's majority in management and/or board, service industry, manufacturing industry, firm age, and firm risk were significant and the log likelihood function was -259.44. In Model 2, the independent variables were entered. The beta coefficient of Family Ownership (FO) was positive and significant (β=2.59, $p<0.05$) and the beta coefficient of Family Ownership Squared (FO^2) was negative and not significant (β=-.05, ns). The log likelihood function for the second model was -228.79. Therefore, Hypothesis 1a was not supported. In Model 3, the moderator (FM) and the interactions of family ownership and family management (FO*FM and FOS*FM) were entered. The log likelihood function was -44.59. The beta coefficient of Family Ownership*Family Management (FO*FM) was positive and not significant (β=24.8, ns) and the beta coefficient of Family Ownership^2*Family Management (FO^2*FM) was negative and not significant (β=-0.68, ns). Hence, Hypothesis 5a was not supported.

As shown in Table 2.4, when the dependent variable was the frequency of the use of provisions protecting controlling owners through sustaining controlling status *(STATUS)*, Model 1 was the base model the set of control variables were entered. Firm age and firm size were significant and log likelihood function was -222.17. In Model 2, the independent variables were entered. The log likelihood function for the second model was -68.44. The beta coefficient of Family Ownership (FO) was positive and not significant (β=.02, ns) and the beta coefficient of Family Ownership Squared (FO^2) was negative and not significant (β=-.00, ns). Therefore, Hypothesis 1b was not supported. In Model 3, the moderator (FM) and the interactions of family ownership and family management (FO*FM and FOS*FM) were entered. The beta coefficient of Family Ownership*Family Management (FO*FM) was negative and significant (β=-10.34, $p<0.001$) and the beta coefficient of Family Ownership^2*Family Management (FO^2*FM) was positive and significant (β=0.28, $p<0.001$). The log likelihood function was -61.34. Since the significant relationships were in the opposite direction from what was hypothesized, Hypothesis 5b was not supported.

As shown in Table 2.5, when the dependent variable was the frequency of the use of provisions protecting noncontrolling owners *(NONCONTROLLING)*, Model 1 was the base model where the set of control variables were entered. Firm size, other insiders' ownership, and firm risk were significant and log likelihood function was 66.07. In Model 2, the independent variable was entered. The log likelihood function for the second model was 66.07. The beta coefficient of Family Ownership (FO) was positive and not significant (β=0.00, ns). Therefore, Hypothesis 2 was not supported. In Model 3, the moderator (FM) and the interactions of family ownership and family management (FO*FM) were entered. The log likelihood function was 66.07. The beta coefficient of Family Ownership*Family Management (FO*FM) was negative and not significant (β=-0.00, ns). Hence, Hypothesis 5c was not supported.

When the dependent variable was the frequency of the use of provisions protecting management and directors' positions *(POSITION)*, Model 1 was the base model where he set of control variables were entered (see Table 2.6). Second (or later) generation's majority in management and/or board, manufacturing industry, institutional ownership, firm age, firm size, other insiders' ownership, and firm risk were significant and log likelihood function was -71.17. In Model 2, the independent variable (FO) was entered. The log likelihood function for the second model was -71.40. The beta coefficient of Family Ownership (FO) was negative and not significant (β=-0.01, ns). Hence, Hypothesis 3a was not supported. In Model 3, the moderator (FM) and the interactions of family ownership and family management (FO*FM) were entered. The log likelihood function was -63.11. The beta coefficient of Family Ownership*Family Management (FO*FM) was positive and not significant (β=0.03, ns). Hence, Hypothesis 5d was not supported.

When the dependent variable was the frequency of the use of provisions protecting management and directors monetarily *(MONETARY)*, Model 1 was the base model where the set of control variables were entered (see Table 2.7). Second (or later) generation's majority in management and/or board, retail industry, manufacturing industry, institutional ownership, firm size, and firm risk were significant and log likelihood function was 40.55. In Model 2, the independent variable (FO) was entered. The log likelihood function for the second model was 39.68. The beta coefficient of Family Ownership (FO) was negative and not significant (β=-0.01, ns). Therefore, Hypothesis 3b was not supported. In Model 3, the moderator (FM) and the interactions of family ownership and family management (FO*FM) were entered. The log likelihood function was 39.76. The beta coefficient of Family Ownership*Family Management (FO*FM) was negative and not significant (β=-0.00, ns). Hence, Hypothesis 5e was not supported.

When the dependent variable was the frequency of the use of provisions protecting management and directors legally *(LEGAL)*, Model 1 was the base model where I entered the set of control variables (see Table 2.8). The service industry, manufacturing industry, institutional ownership, firm age, other insiders' ownership, and firm risk variables were significant and log likelihood function was -17.83. In Model 2, the independent variable (FO) was entered. The log likelihood function for the second model was -18.50. The beta coefficient of Family Ownership (FO) was positive and not significant (β=0.18, ns). Therefore, Hypothesis 3c was not supported. In Model 3, the moderator (FM) and the interactions of family ownership and family management (FO*FM) were entered. The log likelihood function was -18.50. The beta coefficient of Family Ownership*Family Management (FO*FM) was negative and not significant (β=-0.06, ns). Hence, Hypothesis 5f was not supported.

As shown in Table 2.9, when the dependent variable was the frequency of the use of provisions protecting others *(OTHERS)*, Model 1 was the base model where the set of control variables were entered. Institutional ownership, firm size, and firm risk were significant and the log likelihood function was -90.99. In Model 2, the independent variable (FO) was entered. The log likelihood function for the second model was -89.61. Beta coefficient of Family Ownership (FO) was positive and not significant (β=0.01, ns). Therefore, Hypothesis 4 was not supported. In Model 3, the moderator (FM) and the interactions of family ownership and family management (FO*FM) were entered. The log likelihood function was -85.27. The beta coefficient of Family Ownership*Family Management (FO*FM) was positive and not significant (β=0.01, ns). Hence, Hypothesis 5g was not supported.

The results were compared to the Pooled Model through OLS Regression. The results of OLS were compatible with the Tobit panel data analyses. Robustness tests also included the analyses with categorical dependent variables (i.e. 1=at least one provision is used in each provision group; 0=none) and the proportion of family managers and/or the board of directors (PFM). The results of these analyses were consistent with the results presented above.

In summary, there was no support for the hypotheses. The summary of findings can be seen in Table 2.10. The findings are discussed in the following section.

Discussion

Recent research draws attention to the distinctive effects of family involvement (i.e. ownership and management) on the behavior of publicly traded firms (Anderson & Reeb, 2003, 2004; Claessens et al., 2002; Villalonga & Amit, 2006a, 2006b, 2008). Despite this, we do not know enough about why and how families own and control corporations in the ways they do (Villalonga & Amit 2006, 2009). For instance, controlling families' propensity to use different types of governance provisions is still under researched although the use of these provisions may shed light on the acute principal-principal agency problems in some family firms, which can be detrimental to firm performance and shareholder wealth.

In an attempt to fill this gap, this essay suggests that the theory of the family firm will be advanced by the investigation of the link between family involvement components (i.e. family ownership and family management) and the use of control enhancing governance provisions. Accordingly, this paper addresses the question of: How do family ownership and management differentially affect the use of different types of governance provisions? I develop and test a model linking family involvement (i.e. family ownership and family management) and the use of governance provisions on a sample of 386 of SP500 firms via panel data analysis. The hypotheses suggesting links between family ownership, family management, and the use of governance provisions are not supported.

The nonsignificant relationships may have occurred for several reasons. First, the use of provisions might be institutionalized among corporations. In other words, the use of provisions may have become routines, largely diminishing the effects of family ownership and family management on the adoption and the usage of them. Indeed, in institutionalized contexts, corporations tend to become similar because of environmental forces and network ties (Bruton et al., 2010; DiMaggio & Powell, 1983; Palmer & Barber, 2001; Zucker, 1987). The adoption of certain practices, resulting in isomorphism in the institutional environment, tends to increase the probability of adaptation and survival of firms (Zucker, 1987). This institutional logic is consistent with hostile takeovers forming pressure on corporations to ubiquitously adopt and use provisions which can prevent or delay takeovers as a defense tactic (Bebchuk, 2003; Gompers et al. 2003). Accordingly, a recent review by Gedajlovic, Carney, Chrisman, and Kellermanns (working paper) suggests that the effects of family firm governance may largely rely on the existence of institutional forces. Hence, the findings of this essay indicating lack of influence of family involvement on the use of provisions may also suggest that the adoption and use of provisions may be largely influenced by isomorphism among corporations while dealing with takeovers. Therefore, future research can investigate the dynamics in the institutionalization process of the use of governance provisions through the lens of institutional theory.

Second, family firms may not need to use provisions more than nonfamily firms since controlling families in family firms already have substantial power, authority, and legitimacy through ownership and/or participation in management. Indeed, even relatively small percentages of ownership and management provide families with a high level of control compared to dispersed noncontrolling owners with very small percentage of ownership and no active participation in management in publicly traded family firms. This may naturally elevate their ability and power in decision making (Chrisman et al., 2010), diminishing the need for the use of power enhancement tools such as governance provisions. Additionally, family owners and managers may be less likely to use governance provisions owing to the compatibility of their noneconomic and economic goals (Stewart & Hitt, 2010). For example, noneconomic goals such as transgenerational succession and continuity of family legacy can be complementary to economic goals since transferring a failing business to offspring will not have much utility to the new generation. Hence, family business members with transgenerational succession intentions will be motivated to attain economic goals. Since the use of provisions may harm firm performance by preventing or delaying takeovers which may eventually be beneficial to the firm, the family owners and managers with compatible economic and noneconomic goals may not use them.

Third, family owners and managers with stewardship tendencies may choose not to use provisions which may only be beneficial to the controlling family. Indeed, the family owners and managers' interests may be aligned with the interests of the firm, which would suggest that "pro-organizational collectivistic behaviors have higher utility than individualistic self-serving behaviors" (Davis et al., 1997: 24). Accordingly, family firm members may value firm-level objectives such as maximization of shareholder wealth, higher than their individual or family-centered objectives (Zahra, 2003). A stewardship perspective in explaining why family firms do not use governance provisions more than nonfamily firms, despite the potential advantages of doing so, is in line with family business studies suggesting that organization members tend to demonstrate high levels of trust and unity (Tagiuri & Davis, 1996; Habbershon & Williams, 1999) that lead to superior performance and competitive advantages.

In contrast to above, another reason for the finding that family ownership and management do not influence the use of provisions is that family owners and managers may have lower power than expected in US corporations. In the US, ownership in most large firms is relatively dispersed and US courts intervene to ensure diffused ownership (Gedajlovic & Shapiro, 1998; Morck & Steier, 2005). The US also exhibits effective legal protection of noncontrolling shareholders, shareholder activism, and a well-developed corporate takeover mechanism (Burkart et al., 2003; Daily et al., 2003b; Gillan & Starks, 2000). Furthermore, principal-principal agency problems in corporations in the US may not be as severe as in some other countries where family owners and managers would want to manipulate the use of control enhancing governance provisions. Indeed, powerful family business groups primarily driven by private benefits of control can even manipulate their countries' political systems and retard economic growth in less developed countries (Morck & Yeung, 2003, 2004a, 2004b). In the US, weak corporate governance can result in stock price decreases triggering shareholder lawsuits, hostile takeovers, and institutional owners' criticisms in shareholder meetings in nonfamily firms. Therefore, family owners and managers in the US may not have enough power to dominate the strategic decisions concerning the adoption and use of governance provisions.

Accordingly, Peng and Jiang (2010) suggest that the impact of family ownership and control on firm value is associated with the level of shareholder protection embodied in legal and regulatory institutions of a country. On the one hand, when there is effective investor protection, family owners tend to dilute their equity to attract minority shareholders and delegate management to professional managers (Peng & Jiang, 2010). In this case, family owners and managers do not have as much incentive to utilize governance provisions to enhance their power. On the other hand, when the legal system is weak, family owners want to maintain their control by participating in management in order to mitigate potential principal-agent agency problems that can generate from professional managers' opportunistic behaviors (Peng & Jiang, 2010). However, the downside of the enhanced power of the controlling family in an environment characterized by weak legal noncontrolling shareholder protection is the vulnerability to principal-principal agency problems such as expropriation of noncontrolling shareholder wealth and entrenchment of controlling family. Hence, future research can investigate the use of corporate governance mechanisms in family firms within the context of different countries' legal environments.

The findings of this study also include a significant moderation effect of family management on the relationship between family ownership and the frequency of the use of provisions protecting the control status of owners that was in the opposite direction from what was hypothesized in Hypothesis 5b. Accordingly, family management weakens the positive effects of family ownership on the frequency of the use of provisions protecting controlling owners' control status up to an optimum level and then weakens the negative effects after an optimum level is reached. This may be because family owners may be more concerned with the enhancement of their control status when they are not involved in management. However, when they participate in management, they may not be concerned with the enhancement of control status since participation in management naturally provides them sufficient control at low-to-moderate levels of ownership. After an optimum level of family ownership, though, family owners already have substantial control even without participating in management. Therefore, they do not need to use the provisions enhancing control. However, family management appears to weaken the negative effects of family ownership on the use of provisions enhancing control after an optimum level of family ownership since family managers may become more concerned with the family's control status and may not be willing to give up or compromise control at higher levels of ownership, where the family is substantially committed to the firm both via family's wealth and family managers and directors' careers tied up to the family firm. Indeed, at higher levels of family ownership, family managers may feel more attached and committed to firm, elevating their concern for the family's control status. This can weaken the negative effects of family ownership on the use provisions enhancing control after an optimum level of ownership.

The findings regarding the significant relationships between the use of provisions and the generational majority among family managers and board members, which was a control variable, also deserve some discussion. When the first generation constitutes the majority of family managers and board directors, significant positive effects on the frequency of the use of provisions protecting controlling owners through voting rights are observed while investigating H1a and H5a, as can be seen in Table 2.3. Similarly, when second or later generation forms the majority among family managers and board directors, this leads to significant positive effects on the frequency of the use of provisions protecting controlling owners through voting rights. Therefore, family's involvement in the business, rather than the extent of family involvement may be the driver of the use of governance provisions enhancing voting rights.

Other interesting findings pertaining to the generational majority, are that control by second or later generation family managers and directors positively affects the frequency of the use of provisions protecting managers and directors' positions (Table 2.6) and negatively affecting the frequency of the use of provisions protecting managers and directors monetarily (Table 2.7). These findings indicate that when the second or later generation represents the family in management and board more than the first generation, the firm is more likely to use of provisions protecting managers and directors. The findings also suggest that second or later generation family managers' behaviors and intentions to protect their managerial or board membership position may be greater owing to diminishing family influence in later generations and their perceptions of relatively less job security than first generation family managers and directors or managers and directors in nonfamily firms (Schulze et al., 2003; Gomez-Mejia et al., 2007). Conversely, they tend to differ from managers in nonfamily firms by negatively influencing the provisions protecting managers and directors monetarily. The reason for that may be a lower need for monetary protection owing to their inherited family wealth. Hence, second or later generations are more likely to use provisions protecting managers and directors' positions and less likely to use provisions protecting managers and directors monetarily than nonfamily firms, whereas first generation does not seem to differ from nonfamily firms in the use of those provisions.

Limitations and Future Research Directions

The limitations of this essay can also lead to a number of future research directions. First, as stated above, the regulatory context can affect the observed relationships and generalizability to the corporations around the world since the sample included S&P500 firms headquartered in the U.S. Even though increased globalization tends to cause similarities in business conduct in world economies, different legal regimes (e.g. common versus civil law) in different countries can result in differences in corporate governance (Peng & Jiang, 2010). For example, the legal system prevents pyramiding in the US, whereas it is permissible even in many developed countries in Asia and Europe (Peng & Jiang, 2010). Hence, since legal context may be influential to the findings of this essay, future studies can test or extend the model in other countries with different legal systems.

Similarly, despite the panel data analyses examining multiple years (2001, 2003, and 2005 regarding ownership, management, and control variables and the lag years 2002, 2004, and 2006 regarding the frequency of the use of governance provisions), the findings may vary in other time periods (e.g. in 1990s) owing to the changes in the legal system. For example, the examined time periods in this essay involves the enactment of the Sarbanes-Oxley Act in 2002, also known as Investor Protection Act, as a reaction to corporate accounting scandals and the aftermath of its enactment. This act enhanced the reliability of financial reporting, transparency, and accountability through increased internal controls and auditing (Coates, 2007). Hence, future research can compare or contrast the findings of this essay to earlier periods. This can also show whether legislation affects corporate governance.

Another limitation is that, in this essay, the seven categories of governance provisions that group the 24 provisions identified by Gompers et al. (2003) according to the purposes of their usage by firms are formed by a judgment-based categorization (Perreault & Leigh, 1989). Future research can assess the sensitivity of the findings to the use of alternative categorizations.

In this essay, the link between the "components-of-involvement" (i.e. family ownership and family management) and the use of provisions are examined. However, according to the "essence" approach in defining family firms, the intentions, vision, familiness, and/or behaviors may be the distinctive factors distinguishing a family firm from not only a nonfamily firm, but also other family firms (Chrisman et al., 2005). Since the elements of the essence approach are expected to lead to differences in corporate governance systems in family firms, the link between family owners and/or managers intentions, vision, familiness, and/or behaviors (e.g. intentions for transgenerational succession and the intentions to preserve socioemotional wealth) and the use of provisions can be investigated in future research.

Additionally, there may be other family firm-specific factors such as a family member's being a CEO and the Chair of the Board and the number of generations involved in ownership, management, and/or board which can influence the use of governance provisions. Hence, future family business studies can investigate the links between these and other family firm idiosyncrasies and the use of provisions.

As another future research avenue, firm performance as the outcome of the interplay between family involvement and the use of different types of governance provisions can be studied. Studies generally suggest a nonlinear (i.e. an inverted u-shaped) relationship between family involvement and firm performance (e.g. Sciascia &

Mazzola, 2008; Anderson & Reeb, 2003a, 2003b; Claessens et al., 2002). But, we still do not know enough about how and why this phenomenon occurs. One underlying reason for the nonlinear inverted u-shaped relationship between family involvement and firm performance may be the family's tendency to pursue noneconomic goals as family ownership and management increase (Sciascia & Mazzola, 2008; Chrisman, Chua, Pearson & Barnett, 2010). They are able to do so owing to the legitimacy and power obtained through ownership and management positions they hold in the company (Chrisman et al., 2010). When the level of family management increases along with the level of family ownership, the noneconomic goals are likely to be aligned with the interests of both owners and managers, resulting in a relatively lower cost of adopting the goals and lower resistance by management and/or noncontrolling owners (Chrisman et al., 2010). In addition, the use of different types of governance provisions (e.g. provisions enhancing controlling owners' voting rights) can strengthen or weaken the effects of family involvement on firm performance. Future research can explore these interactions of family involvement components and the use of different types of governance provisions, and their impact on firm performance in publicly traded family firms. All these factors suggest additional applications of corporate governance to the study of family businesses.

Furthermore, the effects of family involvement on the use of governance provisions might vary in family firms depending upon top management team characteristics (i.e. heterogeneous versus homogeneous), board composition (i.e. proportion of insiders, outsiders, and related outsiders) (Anderson & Reeb, 2004), board independence (Klein et al., 2005), CEO duality (Zahra, 2003), leadership styles of family managers and directors (Bass, 1990), social capital (Sirmon & Hitt, 2003), strategic networks (Arregle et al., 2007), image concerns (Memili et al., 2010), and life-cycle phases. All these factors suggest additional applications of corporate governance to the study of family businesses.

In conclusion, this essay provides agency theory and corporate governance perspectives to family involvement in corporations. The differences between family and nonfamily firms as well as the model examined in this essay can help scholars and practitioners better understand the family dynamics that play an important role in corporations owned and/or managed by families. If publicly traded family firms can amplify the positive effects of family involvement through the proper use of corporate governance mechanisms and mitigate agency problems, they can achieve long-term survival and prosperity. Publicly traded family firms with effective use of corporate governance provisions will be sought after by the investors and benefit from positive corporate image.

Table 2.1

Governance Provision Types

I - PROVISIONS PROTECTING CONTROLLING OWNERS	**II - PROVISIONS PROTECTING MANAGEMENT AND DIRECTORS**	**III - PROVISIONS PROTECTING NONCONTROLLING OWNERS**	**IV- PROVISIONS PROTECTING OTHERS**
IA - Provisions enhancing voting rights	**IIA - Provisions protecting managers' and/or directors' position**	a) Cash-out laws	a) Pension parachutes
a) Unequal Voting Rights	a) Classified Board	b) Secret ballot	b) Silver parachutes
b) Cumulative Voting	b) Special Meeting		
c) Supermajority	c) Written Consent		
	d) Directors' Duties		
IB - Provisions sustaining controlling status	**IIB - Provisions protecting managers and/or directors monetarily**		
a) Blank Check	a) Compensation Plans		
b) Business Combination Laws	b) Golden Parachute		
c) Poison Pill	c) Severance		
d) Bylaw			
e) Charter			
f) Fair Price			
g) Anti-greenmail	**IIC - Provisions protecting managers and/or directors legally**		
	a) Contracts		
	b) Indemnification		
	c) Limitations on Director Liability		

Table 2.2

Descriptives and Correlations – Essay 1

Variables*	**Mean**	**SD**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**	**15**	**16**	**17**	**18**	**19**	**20**	**21**
1.VOTING	.30	.50	1																				
2.STATUS	2.06	1.05	.06	1																			
3.NONCON	.21	.41	-.06	.01	1																		
4.POSITIO	1.65	1.15	.07	.37	.05	1																	
5.MONETA	1.58	.66	.03	.22	.07	.14	1																
6.LEGAL	.96	.97	.10	.06	.02	-.17	.03	1															
7.OTHERS	.04	.22	.03	.19	.11	.06	.09	.03	1														
8.GEN1	.05	.23	.08	-.03	-.05	-.02	-.11	-.04	.01	1													
9.GEN2	.14	.35	-.00	-.11	-.05	-.08	-.19	.09	-.04	-.10	1												
10.RETAIL	.10	.30	-.04	-.09	-.12	.03	-.04	-.08	-.03	.06	.05	1											
11.SERVIC	.28	.45	-.01	-.02	-.03	.10	-.05	-.07	-.04	.01	-.03	-.21	1										
12.MANUF	.39	.49	-.00	.05	.05	-.07	-.07	.06	.03	-.08	.01	-.27	-.49	1									
13.OTHER	.23	.42	.02	.03	.06	-.04	.16	.06	.03	.04	-.03	-.18	-.34	-.43	1								
14.IO	32.29	11.21	-.03	.08	-.07	.05	.18	-.04	.03	-.05	-.07	.11	-.07	.03	-.04	1							

Table 2.2 (continued)

15.FA	59.20	44.63	.10	.10	.08	.04	.06	.13	.02	-.15	.10	-.09	.03	.05	-.03	-.27	1						
16.FSL	4.23	.56	-.07	.00	.30	.04	-.07	.10	.05	-.05	-.01	.17	.03	.05	-.20	-.15	.22	1					
17.OIO	3.97	6.80	-.01	-.16	-.19	-.14	-.09	-.10	-.06	-.07	-.14	.13	.02	-.02	-.09	-.02	-.16	-.18	1				
18.FR	43.85	46.59	-.04	-.04	-.11	-.02	-.03	-.17	-.03	.03	-.11	.02	-.02	.06	-.05	.15	-.27	-.24	.19	1			
19.FO	1.69	6.21	.00	-.10	-.08	-.09	-.33	.07	-.03	.34	.46	.06	.07	-.05	-.07	-.22	-.02	-.00	-.11	.04	1		
20.FOS	41.43	213.34	-.00	-.10	-.05	-.09	-.29	.05	-.03	.29	.30	.03	.09	-.05	-.06	-.20	-.03	.00	-.08	-.02	.94	1	
21.FM	.02	.00	-.00	-.17	-.04	-.12	-.23	.08	-.07	.36	.70	.13	-.04	-.05	.02	-.12	.01	.00	-.14	-.06	.61	.45	1

***Variables:**
VOTING: The frequency of the provisions protecting controlling owners' voting rights
STATUS: The frequency of the provisions protecting controlling owners' controlling status
NONCON: The frequency of the provisions protecting noncontrolling owners
POSITIO: The frequency of the provisions protecting managers and directors' positions
MONETA: The frequency of the provisions protecting managers and directors monetarily
LEGAL: The frequency of the provisions protecting managers and directors legally
OTHERS: The frequency of the provisions protecting others
GEN1: First generation's majority in management and board
GEN2: Second or later generation's majority in management and board
RETAIL: Retail industry
SERVIC: Service industry
MANUF: Manufacturing industry
OTHER: Other industry
IO: Institutional ownership
FA: Firm age
FSL: Log of firm size
OIO: Other insiders' ownership
FR: Firm risk
FO: Family ownership
FOS: Family ownership squared
FM: Family management

Table 2.3

Results of Analyses for Testing Hypotheses 1a and 5a

Dependent Variable: VOTING (Frequency of the use of provisions protecting owners through voting rights in 2002, 2004, 2006)	**Model 1**	**Model 2**	**Model 3**
Controls (01, 03, 05)			
GEN1 (Generational majority in management and board)	1.15^{*}	-23.22^{+}	218.89
GEN2 (Generational majority in management and board)	$.58^{*}$	-23.68^{+}	174.17
RETAIL	-.60	-18.26	-242.43
SERVICE	$-.49^{*}$	-1.48	-1.48
MANUFACTURING	$-.64^{*}$	-4.5^{**}	-4.5^{**}
IO (Institutional Ownership)	.00	$-.01^{*}$	$-.01^{*}$
FA (Firms Age)	$.01^{*}$	-.01	-.01
FSL (Log of Firm Size)	.01	3.91^{***}	3.91^{***}
OIO (Other Insiders' Ownership)	-.93	$-.17^{***}$	$-.17^{***}$
FR (Firm Risk)	$-.00^{**}$	$.00^{+}$	$.00^{+}$
Independent Variables (01, 03, 05)			
FO (Family Ownership)		2.59^{*}	-30.50
FOS (Family Ownership Squared)		-.05	1.02
Moderator (01, 03, 05)			
FM (Family Management)			-153.44
Interactions (01, 03, 05)			
FOFM (Family Ownership * Family Management)			24.8
FOSFM (Family Ownership Squared * Family Management)			-.68
Log likelihood function	-259.44	-228.79	-44.59
$^{+}p< .10$; $^{*}p< .05$; $^{**}p< .01$; $^{***}p< .001$			

Table 2.4

Results of Analyses for Testing Hypotheses 1b and 5b

Dependent Variable: STATUS (Frequency of the use of provisions protecting owners through sustaining control status in 2002, 2004, 2006)	**Model 1**	**Model 2**	**Model 3**
Controls (01, 03, 05)			
GEN1 (Generational majority in management and board)	.05	.75	-89.18***
GEN2 (Generational majority in management and board)	-.38	1.02*	-70.99***
RETAIL	.27	-7.52***	86.80***
SERVICE	-.1	-2.05***	-2.62***
MANUFACTURING	-.03	-2.65***	-3.01***
IO (Institutional Ownership)	-.00	-.02***	-.01
FA (Firms Age)	.01***	-.02***	-.02***
FSL (Log of Firm Size)	-.53***	.12	.47*
OIO (Other Insiders' Ownership)	-.02	-.03+	-.01
FR (Firm Risk)	-.00	-.01*	-.01*
Independent Variables (01, 03, 05)			
FO (Family Ownership)		.02	12.82***
FOS (Family Ownership Squared)		-.00	-.43***
Moderator (01, 03, 05)			
FM (Family Management)			63.54***
Interactions (01, 03, 05)			
FOFM (Family Ownership * Family Management)			-10.34***
FOSFM (Family Ownership Squared * Family Management)			.28***
Log likelihood function	-222.17	-68.44	-61.34
+p< .10; *p< .05; **p< .01; ***p< .001			

Table 2.5

Results of Analyses for Testing Hypotheses 2 and 5c

Dependent Variable : NONCONTR (Frequency of the use of provisions protecting noncontrolling owners in 2002, 2004, 2006)	**Model 1**	**Model 2**	**Model 3**
Controls (01, 03, 05)			
GEN1 (Generational majority in management and board)	-.98	-.99	-1.47
GEN2 (Generational majority in management and board)	-1.15	-1.17	-1.33
RETAIL	1.77	1.75	1.67
SERVICE	1.26	1.26	1.26
MANUFACTURING	.43	.43	.43
IO (Institutional Ownership)	.00	.00	.00
FA (Firms Age)	.00	.00	.00
FSL (Log of Firm Size)	$.98^{***}$	$.98^{***}$	$.98^{***}$
OIO (Other Insiders' Ownership)	$-.05^{***}$	$-.05^{***}$	$-.05^{***}$
FR (Firm Risk)	$.00^{**}$	$.00^{**}$	$.00^{**}$
Independent Variables (01, 03, 05)			
FO (Family Ownership)		.00	-.01
FOS (Family Ownership Squared)			
Moderator (01, 03, 05)			
FM (Family Management)			.33
Interactions (01, 03, 05)			
FOFM (Family Ownership * Family Management)			-.00
FOSFM (Family Ownership Squared * Family Management)			
Log likelihood function	66.07	66.07	66.07
$^{+}p< .10$; $^{*}p< .05$; $^{**}p< .01$; $^{***}p< .001$			

Table 2.6

Results of Analyses for Testing Hypotheses 3a and 5d

Dependent Variable: POSITION (Frequency of the use of provisions protecting managers' positions in 2002, 2004, 2006)	**Model 1**	**Model 2**	**Model 3**
Controls (01, 03, 05)			
GEN1 (Generational majority in management and board)	1.63	1.73	4.63
GEN2 (Generational majority in management and board)	1.34^{***}	1.43^{***}	3.42^{***}
RETAIL	-8.4	-8.12	-9.68
SERVICE	-2.12	-2.01	-2.44
MANUFACTURING	-1.59^{***}	-1.51^{***}	-1.83^{**}
IO (Institutional Ownership)	$.02^{**}$	$.02^{**}$	$.03^{***}$
FA (Firms Age)	$-.02^{***}$	$-.02^{***}$	$-.02^{***}$
FSL (Log of Firm Size)	1.08^{***}	1.06^{***}	1.23^{***}
OIO (Other Insiders' Ownership)	$-.07^{***}$	$-.07^{***}$	$-.06^{***}$
FR (Firm Risk)	$.01^{*}$	$.01^{*}$	.00
Independent Variables (01, 03, 05)			
FO (Family Ownership)		-.01	-.05
FOS (Family Ownership Squared)			
Moderator (01, 03, 05)			
FM (Family Management)			$-.95^{***}$
Interactions (01, 03, 05)			
FOFM (Family Ownership * Family Management)			.03
FOSFM (Family Ownership Squared * Family Management)			
Log likelihood function	-71.17	-71.4	-63.11
$^{+}p< .10$; $^{*}p< .05$; $^{**}p< .01$; $^{***}p< .001$			

Table 2.7

Results of Analyses for Testing Hypotheses 3b and 5e

Dependent Variable: MONETARY (Frequency of the use of provisions protecting managers monetarily in 2002, 2004, 2006)	**Model 1**	**Model 2**	**Model 3**
Controls (01, 03, 05)			
GEN1 (Generational majority in management and board)	-.13	-.04	-.20
GEN2 (Generational majority in management and board)	$-.28^{*}$	-.19	-.32
RETAIL	-1.27^{**}	-.93	-.78
SERVICE	1.51	1.63	1.68
MANUFACTURING	$-.48^{**}$	$-.4^{*}$	$-.36^{+}$
IO (Institutional Ownership)	$.02^{***}$	$.02^{***}$	$.02^{***}$
FA (Firms Age)	-.00	-.00	-.00
FSL (Log of Firm Size)	$-.23^{**}$	$-.26^{**}$	$-.29^{**}$
OIO (Other Insiders' Ownership)	.00	.00	.00
FR (Firm Risk)	$-.00^{+}$	-.00	-.00
Independent Variables (01, 03, 05)			
FO (Family Ownership)		-.01	.00
FOS (Family Ownership Squared)			
Moderator (01, 03, 05)			
FM (Family Management)			.04
Interactions (01, 03, 05)			
FOFM (Family Ownership * Family Management)			-.00
FOSFM (Family Ownership Squared * Family Management)			
Log likelihood function	40.55	39.68	39.76
$^{+}p< .10$; $^{*}p< .05$; $^{**}p< .01$; $^{***}p< .001$			

Table 2.8

Results of Analyses for Testing Hypotheses 3c and 5f

Dependent Variable: LEGAL (Frequency of the use of provisions protecting managers legally in 2002, 2004, 2006)	**Model 1**	**Model 2**	**Model 3**
Controls (01, 03, 05)			
GEN1 (Generational majority in management and board)	1.84	-.17	-.48
GEN2 (Generational majority in management and board)	1.96	-.04	-.32
RETAIL	-.19	-2.23	-.32
SERVICE	3.62^{***}	3.61^{***}	3.61^{***}
MANUFACTURING	$.72^{*}$	$.72^{*}$	$.72^{*}$
IO (Institutional Ownership)	$-.02^{**}$	$-.02^{**}$	$-.02^{**}$
FA (Firms Age)	$.01^{**}$	$.01^{**}$	$.01^{**}$
FSL (Log of Firm Size)	-.03	-.03	-.03
OIO (Other Insiders' Ownership)	$-.04^{**}$	$-.04^{**}$	$-.04^{**}$
FR (Firm Risk)	$.01^{***}$	$.01^{***}$	$.01^{***}$
Independent Variables (01, 03, 05)			
FO (Family Ownership)		.18	.24
FOS (Family Ownership Squared)			
Moderator (01, 03, 05)			
FM (Family Management)			.32
Interactions (01, 03, 05)			
FOFM (Family Ownership * Family Management)			-.06
FOSFM (Family Ownership Squared * Family Management)			
Log likelihood function	-17.83	-18.5	-18.5
$^{+}p < .10$; $^{*}p < .05$; $^{**}p < .01$; $^{***}p < .001$			

Table 2.9

Results of Analyses for Testing Hypotheses 4 and 5g

Dependent Variable: OTHERS (Frequency of the use of provisions protecting others in 2002, 2004, 2006)	**Model 1**	**Model 2**	**Model 3**
Controls (01, 03, 05)			
GEN1 (Generational majority in management and board)	1.13	1.04	2.13
GEN2 (Generational majority in management and board)	.31	.29	1.70^{+}
RETAIL	-1.6	-1.6	-2.43^{+}
SERVICE	-.27	-.26	-.38
MANUFACTURING	.38	.46	.46
IO (Institutional Ownership)	$.05^{*}$	$.04^{*}$	.03
FA (Firms Age)	.01	$.01^{+}$	$.01^{+}$
FSL (Log of Firm Size)	$-.00^{**}$	$-.00^{**}$	$-.00^{**}$
OIO (Other Insiders' Ownership)	-.00	-.00	$-.00^{*}$
FR (Firm Risk)	$-.00^{+}$	$-.00^{+}$	$-.00^{*}$
Independent Variables (01, 03, 05)			
FO (Family Ownership)		.01	.05
FOS (Family Ownership Squared)			
Moderator (01, 03, 05)			
FM (Family Management)			-1.55^{+}
Interactions (01, 03, 05)			
FOFM (Family Ownership * Family Management)			.01
FOSFM (Family Ownership Squared * Family Management)			
Log likelihood function	-90.99	-89.61	-85.27
$^{+}p< .10$; $^{*}p< .05$; $^{**}p< .01$; $^{***}p< .001$			

Table 2.10

Summary of Results – Essay 1

Hypotheses	**Conditions that will demonstrate support for the hypotheses**	**Findings**
Main Effects		
H1a	Beta coefficient of Family Ownership (FO) is positive and significant ($p<0.05$) and beta coefficient of Family Ownership Squared (FO^2) is negative and significant ($p<0.05$).	Not supported (Table 2.3)
H1b	Beta coefficient of Family Ownership (FO) is positive and significant ($p<0.05$) and beta coefficient of Family Ownership Squared (FO^2) is negative and significant ($p<0.05$).	Not supported (Table 2.4)
H2	Beta coefficient of Family Ownership (FO) is negative and significant ($p<0.05$).	Not supported (Table 2.5)
H3a	Beta coefficient of Family Ownership (FO) is positive and significant ($p<0.05$).	Not supported (Table 2.6)
H3b	Beta coefficient of Family Ownership (FO) is negative and significant ($p<0.05$).	Not supported (Table 2.7)
H3c	Beta coefficient of Family Ownership (FO) is negative and significant ($p<0.05$).	Not supported (Table 2.8)
H4	Beta coefficient of Family Ownership (FO) is positive and significant ($p<0.05$).	Not supported (Table 2.9)

Table 2.10 (continued)

Hypotheses	Conditions that will demonstrate support for the hypotheses	Findings
Moderators		
H5a	Beta coefficient of Family Ownership*Family Management (FO*FM) is positive and significant ($p<0.05$) and beta coefficient of Family Ownership^2*Family Management (FO^2*FM) is negative and significant.	Not supported (Table 2.3)
H5b	Beta coefficient of Family Ownership*Family Management (FO*FM) is positive and significant ($p<0.05$) and beta coefficient of Family Ownership^2*Family Management (FO^2*FM) is negative and significant.	Not supported (Table 2.4) (U-shaped relationship is significant rather than the hypothesized inverted U-shaped relationship)
H5c	Beta coefficient of Family Ownership*Family Management (FO*FM) is negative and significant ($p<0.05$).	Not supported (Table 2.5)
H5d	Beta coefficient of Family Ownership*Family Management (FO*FM) is positive and significant ($p<0.05$).	Not supported (Table 2.6)
H5e	Beta coefficient of Family Ownership*Family Management (FO*FM) is negative and significant ($p<0.05$).	Not supported (Table 2.7)
H5f	Beta coefficient of Family Ownership*Family Management (FO*FM) is negative and significant ($p<0.05$).	Not supported (Table 2.8)
H5g	Beta coefficient of Family Ownership*Family Management (FO*FM) is positive and significant ($p<0.05$).	Not supported (Table 2.9)

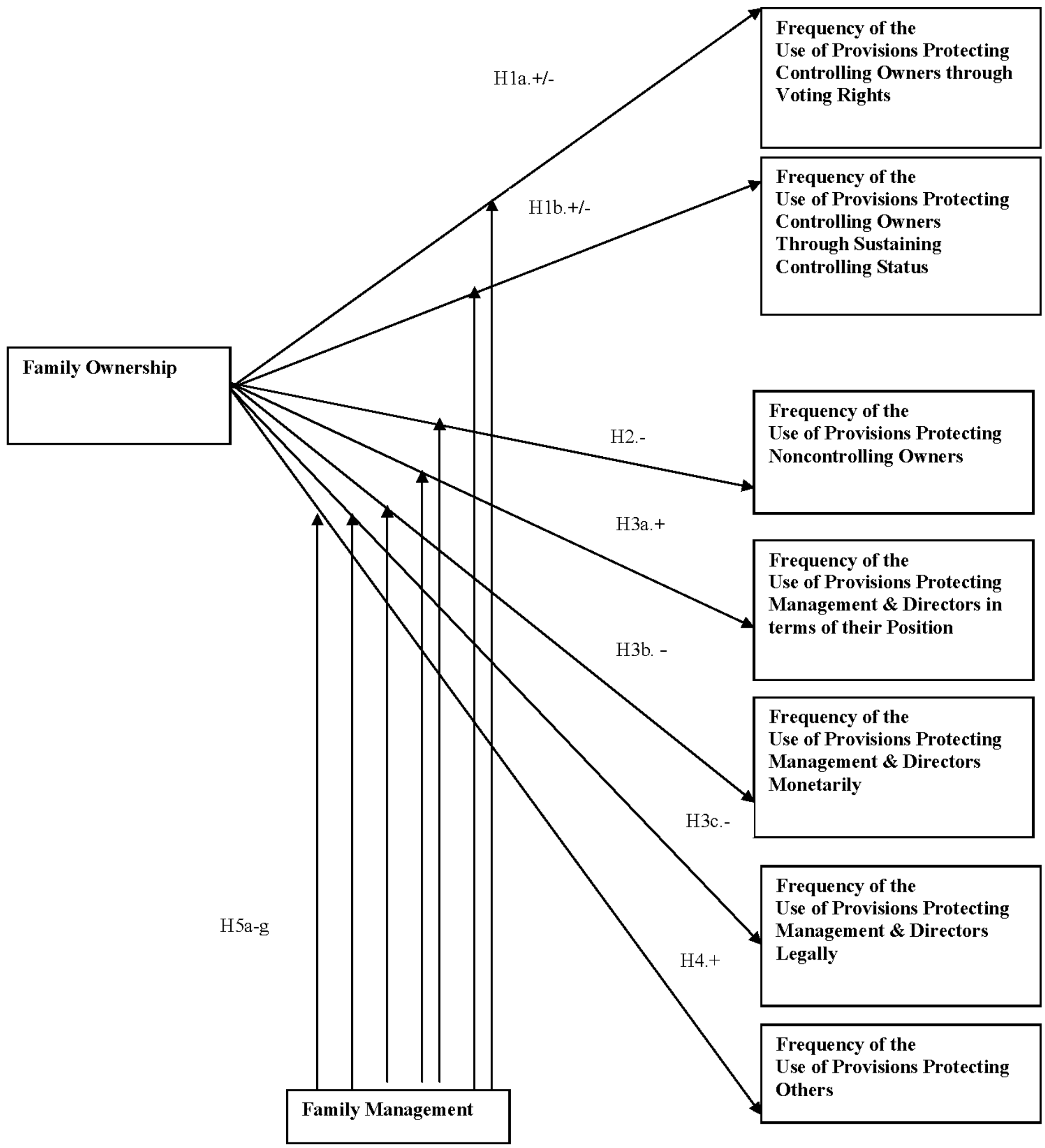

Figure 2.1 The Link between Family Involvement and Provisions

CHAPTER III

ESSAY 2.

THE LINK BETWEEN FAMILY INVOLVEMENT, CORPORATE GOVERNANCE PROVISIONS, AND FIRM PERFORMANCE

Introduction

Family involvement in corporate governance is common in the U.S. and around the world (Villalonga & Amit, 2006, 2009), typically through families' participation in ownership and management (Chrisman et al., 2004). Indeed, family business members are often officers, directors, or blockholders, either individually or as a group (Villalonga & Amit, 2009). Since family involvement can lead to the pursuit of particularistic goals and strategies (Carney, 2005), family firm behavior and performance are expected to be distinct from not only those in nonfamily firms but also vary across family firms as well. Thus, examining how the use of governance provisions affects the relationship between family involvement and firm performance can improve our understanding of corporate governance in publicly traded family firms.

Publicly traded family firms tend to exhibit less severe principal-agent agency problems because of the direct involvement of family owners in management as well as the ability to monitor the managers through their direct involvement in firm governance

(Maury, 2006). Nevertheless, family firms are believed to exhibit more severe principal-principal agency problems arising between controlling and noncontrolling shareholders due to families' significant stock ownership and control over the board of directors which allow them to pursue their own particular interests (Ali et al., 2007; Maury, 2006). Accordingly, some families may exhibit more concern with the pursuit of noneconomic goals (Berrone et al., 2010; Chrisman, Chua & Litz, 2003; Chrisman, Chua, Pearson, Barnett, forthcoming; Gomez-Mejia et al., 2007) than increasing shareholder wealth. The use of control enhancing governance provisions, such as unequal voting rights in favor of the controlling family, can strengthen the family's ability to pursue noneconomic and economic goals that benefit family members, rather than increasing shareholder wealth. Hence, unchecked family involvement in the business elevates the likelihood of opportunistic behavior, which can consequently harm firm performance in family controlled firms (Anderson & Reeb, 2004).

Gompers et al. (2003) show that control enhancing governance provisions can lead to higher agency costs if managers use them to resist different types of shareholder activism (geared toward directing executives and directors to manage the firm in line with shareholders' long-term interests) (Daily et al., 2003). They also suggest that such mechanisms may be associated with performance differences among firms. The authors, however, do not differentiate between family and nonfamily firms. There has been a stream of research investigating whether family firms outperform nonfamily firms. Generally, the conclusion has been they do, although performance differences also seem to be a function of the type of family involvement (e.g. Anderson & Reeb, 2003; Miller et al., 2007; Villalonga & Amit, 2006). Pertinent to this essay, Villalonga and Amit (2009a) found that the impact of control enhancing mechanisms on firm performance depends on the mechanism used. However, only a few of the control enhancing mechanisms such as voting agreements, dual-class stock, cross-holdings, pyramids,[2] and their impact on firm performance have been investigated within the framework of publicly traded family firms (e.g. Villalonga & Amit, 2006a, 2006b). These control enhancing mechanisms generally increase voting rights of the families relative to their share ownership (Villalonga & Amit, 2006b). However, studies investigating control enhancing governance index provisions, particularly as used by the firms in the US, are needed to better understand corporate governance and to distinguish between publicly traded family and nonfamily firms.

There has been a call for studies examining family firm performance and its antecedents, owing to the critical role of firm value in buy out decisions, tax payments, executive compensation, capital raising strategies, and selling the company (Villalonga, 2009). Family ownership and management can enhance firm value since the controlling family can provide superior oversight through lengthy tenure, invest in long-term projects, or exhibit reputation concerns that diminish the possibility of questionable or irresponsible business practices (Anderson & Reeb, 2003; Dyer & Whetten, 2006). However, the use of control enhancing mechanisms, which may be driven by intentions

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[2] According to Morck and Steier (2005), a pyramid is a structure prevalent around the world except in the U.S. and U.K. in which a shareholder, usually a family, controls a single company and this company then holds control blocks in other companies and each of these companies holds control blocks in even more companies, which is rare in the US.

to maintain family control to preserve socioemotional wealth (Chrisman et al., 2010; Gomez-Mejia et al., 2007), may also negatively influence the effects of family ownership and management on firm performance. To date, the interaction effects of family involvement and control enhancing governance provisions on firm performance have not been fully investigated. Instead, the focus has been mostly on the direct effects of governance mechanisms on firm performance (Daily et al., 2003). Control enhancing mechanisms within the context of publicly traded family firms require more research attention, since some of them may be associated with acute principal-principal agency costs (Chrisman et al., 2010; Morck et al., 1988). Additionally, increasing ownership to a point at which managers become entrenched can elevate agency costs (Crutchley, 1999). Nevertheless, we do not know enough about the factors that enhance or mitigate controlling owners' ability and willingness to pursue policies that lead to the expropriation of minority shareholder wealth in family firms as opposed to those that increase shareholder wealth (Chrisman et al., 2010).

Thus, this essay applies agency theory (Fama & Jensen, 1983; Jensen & Meckling, 1976) and the extant family governance literature to develop and test a model demonstrating how the frequencies of the use of these provisions moderate the relationships between family involvement (i.e. family ownership and management) and firm performance. Specifically, this model explores the effects of the use of governance provisions on the relationship between family involvement and firm performance. Hence, governance provisions are expected to influence firm performance through interacting with family ownership and family management with reinforcing effects.

This essay contributes to the literature in at least two ways. First, it illustrates the interplay between family involvement and corporate governance provisions in influencing firm performance. By doing so, it contributes to a better understanding of the differences between publicly traded family and nonfamily firms that are likely to have an impact on firm performance through the use of control enhancing governance provisions. Second, findings of this essay shed light onto the principal-principal agency costs since some of the provisions may be associated with agency problems in publicly traded family firms.

In the remainder of this essay, a theoretical overview is provided and hypotheses are developed. Then, the hypotheses are tested. Finally, results, future research opportunities, and implications for practice are discussed.

Theoretical Overview

Agency Theory

Agency relationships occur when a principal hires an agent to perform services and delegates authority to the agent (Jensen & Meckling, 1976). However, according to Jensen (1994), agency problems are likely to arise among individuals engaging in cooperative endeavors in any given setting (e.g. commerce, family, or other social organizations), since people are often driven by their self-interests and subsequently experience self-control problems. Agency theory is particularly concerned with contractual arrangements containing the agreed upon terms of agency (Ross, 1973). Since contracts are incomplete owing to bounded rationality and information asymmetries, separation of ownership and control can lead to problems when the interests of the principal and the agent diverge, especially when it is difficult for the principal to monitor the behavior of the agent (Eisenhardt, 1989). This can lead to principal-agent type of agency problem, whereas principal-principal type of agency problem arises from the conflict between controlling and noncontrolling shareholders (Ali et al., 2007).

Agency Problems in Family Firms

The original view was that fewer agency problems would occur in firm governance with unified ownership and management (Chrisman et al., 2004; Jensen & Meckling, 1976; Fama & Jensen, 1983), which results in alignment of interests, monitoring advantages, and increased concern for shareholder wealth (Chrisman et al., 2004; Schulze et al., 2001). On the one hand, in family firms where relationships are characterized by reciprocal altruism (i.e. a mutual moral value encouraging individuals to act in a manner that would benefit other individuals without expecting anything in return), agency costs can be lowered (Schulze, Lubatkin & Dino, 2002). When family business members are reciprocally altruistic to each other (Chrisman, Chua, & Sharma, 2005), their interests are likely to be aligned with the interests of the family and the family firm (Corbetta & Salvato, 2004) and family business members may hold business objectives above their self-interests (Zahra, 2003). Since reciprocal altruism can facilitate bonding through trust, communication, respect and love (Lubatkin, Schulze, Ling & Dino, 2005), family firms can foster a collectivistic environment rather than a self-serving one (Corbetta & Salvato, 2004).

On the other hand, family relationships exhibiting asymmetric altruism can lead to other agency problems such as owner-managers' taking actions that can harm themselves and others, adverse-selection (i.e. the principal hires an agent who is less able, committed, industrious, ethical, or whose interests are less compatible with those of the principal than expected), and moral hazard (i.e. "lack of effort on the part of the agent") (Chrisman et al., 2004; Eisenhardt, 1989: 61; Jensen, 1994; Schulze et al., 2001). Within the context of agency theory, people can be motivated by nonmonetary factors such as altruism, and may harm themselves and others in the case of asymmetric altruism (Jensen, 1994). For instance, when parents with nepotistic tendencies exclusively hire, evaluate, and promote offspring (or other kin) based on irrelevant criteria (e.g., kinship ties) in contrast to competence (Perrow, 1972), this leads to adverse selection, and results in inertia in strategic decision making. These problems can be detrimental to long term family firm success and growth (Chua et al., 2003; Dyer, 2006).

Principal-principal versus Principal-agent Agency Problems

In corporations owned and/or managed by families, agency problems tend to be different from those in nonfamily firms exhibiting more principal-agent agency problems, as well as from privately held family firms, because of the existence of various groups of owners and/or managers with different, and often conflicting interests (Gomez-Mejia et al. 2001). When family owners often hold management positions, the interests of owners and managers tend to be relatively more aligned than in nonfamily publicly traded firms. Furthermore, direct involvement of family owners in management increases effective monitoring over the managers (Maury, 2006). Consequently, publicly traded family firms often exhibit less severe principal-agent agency problems that are rooted in the separation of ownership and management.

However, family owners and managers in family controlled corporations are likely to pursue interests that are not identical to those of noncontrolling shareholders, who have less power because of their relatively lower levels of ownership and no active participation in management. Hence, in publicly traded family firms, the concern is that when the management and board positions are dominated by family members, they may act only for the controlling family (Morck & Yeung, 2003). Some families may exhibit more concern with the private benefits of control; i.e. benefits appropriated by large shareholders at the expense of minority shareholders (Shleifer & Vishny, 1997) and the preservation of socioemotional wealth to achieve family-centered noneconomic goals (Chrisman et al., 2003, forthcoming; Gomez-Mejia et al., 2007) than increasing shareholder value. For example, a controlling family may favor expansion to create jobs for its members and sustaining its control, even though the investment may not be profitable for the firm and may lower shareholder value. Therefore, some family firms exhibit more severe principal-principal agency problems arising between controlling and noncontrolling shareholders.

Principal-principal agency problems are usually in the form of expropriation of noncontrolling shareholder wealth and/or managerial entrenchment. Expropriation occurs when governance is weak, particularly when large or majority owners control the firm and limit noncontrolling owners' right to appropriate returns on their investments (Dharwadkar et al., 2000; Young et al., 2008). Concentrated control enhances monitoring over agents (who may also be owners), while increasing the incentive and power of owners to expropriate minority shareholder wealth (Anderson & Reeb, 2003, 2004;

Andres, 2008; La Porta et al. 1999). Expropriation can be in the forms of tunneling through non-arm's-length, related-party, and self-dealing transactions (Shleifer & Vishny, 1997; Young et al., 2008). Management can also hold excessive cash within the firm, allowing the family to use it for their private benefit instead of investing or returning it to investors as dividends (Shleifer & Vishny, 1997). Managers can also be resistant to value-increasing takeovers in order to protect the private benefits of family control, which can also harm firm performance and lower shareholder wealth (Mahoney et al., 1996, 1997; Cremers & Nair, 2005). Hence, family managers' anti-takeover actions, independent of the price offered, indicates managerial pursuit of self- and family-interest at the expense of shareholder wealth (Jensen & Ruback, 1983). Accordingly, Gompers et al. (2003) illustrate that anti-takeover Governance Index provisions in the US are associated with lower firm value. Building on Shleifer and Vishny (1997), the problem of expropriation can be severe particularly when the controlling owners are wealthy enough and they simply prefer to focus on the attainment of noneconomic goals.

Aside from the expropriation problem, higher levels of ownership and management can also facilitate managerial entrenchment of family members. Entrenchment occurs when a manager remains active in the company and resists transfer of control despite the lack of qualifications (Anderson et al., 2002; Anderson & Reeb, 2003a). Entrenchment can limit strategic change and increase inertia, which may be detrimental to firm performance. Entrenchment can persist when managers obscure or hide negative attributes, hire consultants to legitimize their decisions, influence the board to interfere with monitoring, manipulate information, make themselves indispensable by creating complexities or initiating projects that require their skills and abilities, and attribute low firm performance to external factors (Gomez-Mejia et al., 2001; Walsh & Seward, 1990). Gomez-Mejia et al. (2001) argue that family firms may be more prone to managerial entrenchment since family ties and emotions may influence the perceived competence of the family executive(s), lowering the effectiveness of monitoring and resulting in biased evaluation of executive performance.

Hence, both expropriation and entrenchment of the controlling family are principal-principal agency problems which can harm noncontrolling shareholder value. In the next section, family involvement in corporate governance and performance differences not only between family and nonfamily firms but also among family firms themselves are discussed.

Family Governance in Corporations

Corporate governance involves the structure of authority determining allocation of funds and responsibilities (Daily et al., 2003; Gedajlovic et al., 2004; Gour & Shin, 2005; Hart, 1995). Corporate governance is particularly important when agency problems prevail and they cannot be dealt with through incomplete contracts (Hart, 1995). The rights to determine the management of corporate resources are usually determined by ownership and involvement in management. Accordingly, the central concern of corporate governance is to construct a system of control, regulation, and incentives to effectively align the interests of managers and owners (Shleifer & Vishny, 1997; Turnbull, 1997).

Family firms differ from nonfamily firms and each other by the level and type of influence they exert on firm behavior through ownership and management (Chrisman, Chua, & Sharma, 2005; Chua et al., 1999). Family involvement is significant “when a family owns all or a controlling portion of the business and plays an active role in setting strategy and in operating the business on a day-to-day basis” (Kelly et al., 2000: 27). Ownership and management are critical in determining the family’s ability to influence an ongoing business (Sundaramurthy & Kreiner, 2008). Concentrated ownership by families in publicly traded firms tends to be universally common, despite legal restrictions on high levels of ownership (La Porta et al., 1999; Shleifer & Vishny, 1997; Villalonga & Amit, 2009). An effective corporate governance can increase both controlling and noncontrolling shareholders’ wealth and align their interests. In the following section, I discuss firm performance in publicly traded family versus nonfamily firms.

Firm Performance in Family versus Nonfamily Firms

Family ties, loyalty, and stability concerns tend to lengthen the horizons of family managers beyond their tenure and lifetime and provide incentives to make efficient investments in the firm, which can consequently maximize firm value (James, 1999). Since the family owner-managers’ business actions are closely linked to the welfare of the current and future generations, they are less likely to pursue personal interests over family considerations (James, 1999).

In addition to the extended horizons rooted in the primary desire for the family’s continuity, unity, and legacy (Upton et al., 2001; Anderson & Reeb, 2003; Miller & Le

Breton-Miller, 2008), there is a close link between family's wealth and the family firm's performance, particularly when family's ownership of the firm is relatively high (Anderson & Reeb, 2003). On the one hand, the particularistic perceptions of co-ownership, parsimony owing to family's wealth at stake as well as the future generations in mind, can lead to family business members' current sacrifice for the long-run benefits for family by avoiding on-the-job consumption through lower dividends and profit sharing (James, 1999; Miller & Le Breton-Miller, 2005a, 2005b). This can facilitate family owner-managers' efficient investment decisions (Carney, 2005). On the other hand, managers in nonfamily firms are more likely to be driven by current consumption (e.g. high compensation and/or profit sharing), which can result in underinvestment owing to substituting consumption for firm investment (James, 1999) or overexpansion to increase management complexity to justify higher CEO compensation (Jensen & Murphy, 1990; Murphy, 1985).

Accordingly, a prominent stream of research shows that family firms may outperform nonfamily firms (Anderson & Reeb, 2003; Andres, 2008; Habbershon & Williams, 1999; Hoy & Verser, 1994; Lee, 2004, 2006; Martinez et al., 2007; McConaughy et al., 1998; McConaughy & Phillips, 1999). Nevertheless, while investigating the performance differences between not only family and nonfamily firms but also among family firms, studies also draw attention to different family involvement configurations (e.g. founding family control vs. descendant family control, family vs. nonfamily CEO, the degree of board independence, and family firm types), which may lead to performance differences not only between family and nonfamily firms, but also among family firms as well (Anderson & Reeb, 2003a, 2003b; Barth et al., 2005; Dyer, 2006; Filatotchev et al., 2005; McConaughy et al., 1998; McConaughy & Phillips, 1999; Miller & Le Breton-Miller, 2006; Perez-Gonzales, 2006; Villalonga & Amit, 2006). Studies show that these different configurations of family ownership and control can be associated with firm value positively or negatively or exhibit no relationship (O'Boyle et al., 2008; Peng & Jiang, 2010).

Family Involvement Configurations

Founder-controlled versus Descendant-controlled Family Firms

Findings are mixed concerning the performance differences between founder-controlled and descendant-controlled family firms. Research shows that founder-controlled firms can outperform not only nonfamily firms, but also descendant-controlled family firms (Andres, 2008; Barontini & Caprio, 2005; Lee, 2006; Miller & Le Breton-Miller, 2006; Villalonga & Amit, 2006). Some scholars argue the opposite by showing that descendant-controlled firms are more efficient and profitable than founder-controlled firms (McConaughy et al., 1998; McConaughy & Phillips, 1999). According to Sraer and Thesmar (2007), family firms largely outperform nonfamily firms regardless of being controlled by the founding or descendant families in control, whereas Miller et al. (2007) show that only businesses with a lone founder, rather than a founding family, outperform others. Miller and Le Breton-Miller (2006) point out that family-controlled businesses perform well when they mitigate agency costs and foster stewardship behaviors among leaders.

Family versus Nonfamily CEO

Researchers also investigate the impact of family and nonfamily CEOs on firm performance and provide mixed results (e.g. Anderson & Reeb, 2003, Villalonga & Amit, 2006; Minichilli et al., 2010). For example, Anderson and Reeb (2003) show that when a family member serves as CEO, firm performance is better than with an outside CEO. Likewise, Villalonga and Amit (2006) show that family ownership creates value only when the founder serves as the CEO of the firm, or as its chairman with a hired CEO. However, the authors also show that when a descendant serves as CEO, firm value diminishes. A recent study by Minichilli et al. (2010) shows that the presence of a family CEO is beneficial for firm performance. However, the coexistence of family and nonfamily managers in top management teams can also create conflict and consequently harm firm performance (Minichilli et al., 2010).

Burkart et al. (2003), however, argue that a professional nonfamily manager is a better manager than a family manager, which will affect firm performance positively. The authors also argue that the lack of separation of ownership and management and the prevalence of family firms can be indicators of financial underdevelopment in a country. In line with Burkart et al.'s (2003) argument, Barth et al. (2005) show that family owned firms with CEOs who are family members are significantly less productive than nonfamily firms. The authors also show that when family owned firms are professionally managed by nonfamily managers, they are equally productive as nonfamily firms. Accordingly, Smith and Amoako-Adu (1999) show that stock prices decline when family successors are appointed, whereas there is no significant decrease in stock prices when either nonfamily insiders or outsiders are appointed to CEO position in family firms in Canada. Bennedsen et al. (2007) present similar findings concerning the negative impact of family successions on firm performance in their study conducted in Denmark. Perez-Gonzales (2006) also shows that firms with family CEOs underperform.

Board Independence

Miller and Le Breton-Miller (2006) argue that family CEOs can lead family firms to success when they are without complete voting power and accountable to independent directors. Consistent with Miller and Le Breton-Miller's (2006) argument, studies also explore the impact of board independence on performance in family firms. Research shows that board independence from the founding family has a positive effect on firm performance (Anderson & Reeb, 2003b, 2004; Filatotchev et al., 2005).

Different Types of Family Firms

Additionally, Dyer (2006) draws attention to the different types of family firms. Self-interested family firms exhibit family members looking after their own and the family's self-interest rather than the well-being of the firm, resulting in lower performance than nonfamily firms. Dyer (2006), however, argues that clan and professional firms can outperform nonfamily firms. In clan family firms, shared goals, norms, and values can foster healthy relationships, lower agency costs, and increase the firm's ability to leverage human, social, and financial capital. In professional family firms, family maintains significant ownership, however relies on professional managers to run the business. This can facilitate the efficient use of family assets like in the clan family firm.

Hence, the link between family involvement and firm performance depends upon various contingencies discussed in this section. A summary of the differences between the performance of family and nonfamily firms and among family firms themselves can be seen in Appendix D.

The control enhancing governance provisions, which constitute an important part of corporate governance and may play a role in the relationship between family involvement and firm performance through generating principal-principal agency problems in publicly traded family firms, are discussed in the following section of this essay.

Governance Provisions

Gompers et al. (2003) identify 24 governance provisions used in corporations. The authors divide governance provisions into five groups based upon the purpose of their usage: tactics for delaying takeovers (delay), director/officer protection (protection), voting rights (voting), state laws (state), and other takeover defenses (other). However, the authors do not distinguish between family and nonfamily firms nor consider the differences between controlling family and noncontrolling owner groups and their distinct characteristics, interests, and rights within the context of family firms. For example, controlling owners can decide "what businesses to enter and exit, what companies to acquire, what assets to sell, how much to invest, what officers and directors to select, how much to pay them, and how much money (if any) to distribute to themselves and minority shareholders", whereas noncontrolling owners' rights are "to participate in dividend or other cash-flow distributions (that controlling owners decide on), and to benefit from capital gains (if there are any, and if the shares can be freely sold so that minority shareholders indeed realize those gains)" (Villalonga, 2008: 1,2). Controlling owners may pursue family-centered goals and strategies to achieve those goals, which may consequently be beneficial to the controlling family, but not to the noncontrolling owners and the firm in general, which can consequently harm firm performance. Hence, in this essay, governance provisions are classified based on the purpose of usage and the existence of different interest groups (i.e. controlling owners, noncontrolling owners, management and board, and others who are a broad group of employees) within the context of family firms, as can be seen in Appendix B.

Based on the classification of governance provisions, hypotheses are developed in the following section.

Hypotheses Development

Zahra (2003) argues that family involvement significantly affects the strategic choices of the family firm. Consistent with Zahra's (2003) argument, Carney (2005) suggests that ownership allows family members to have control rights over the firm's assets and use these rights to influence and dominate decision-making making processes in family firms. As family business researchers (Daily & Dollinger, 1992; James, 1999; Anderson & Reeb, 2003; Zahra, 2003, 2005) point out, the combination of ownership and control can be advantageous and lead to greater investment efficiencies, as the bond between the firm and the family are strengthened and family interests are aligned with the family firm's interests. The alignment of interest between the firm and the family encourages strategic activities that can stimulate growth and improve performance

(Zahra, 2005). In addition, as Zahra (2005) argues, a family's involvement in the ownership and management of a business gives the family the discretion to generate strategic ideas and to execute their timely implementation. Thus, firms with family involvement exhibit strategic decisions which are shaped by values and aspirations of the family business owner(s) and/or manager(s), who exhibit personalistic, particularistic, and parsimonious tendencies (Carney, 2005), and longer investment horizons (Ward, 1997; Habbershon & Williams, 1999; James, 1999; Anderson & Reeb, 2003; Zahra et al., 2008). Strategic decisions shaped by these characteristics can elevate performance.

Family Involvement and Firm Performance

Within the framework of agency theory and corporate governance, family ownership and management may be beneficial owing to easier monitoring and a concern for protecting the family's wealth. Studies show that family firms may outperform nonfamily firms (Anderson & Reeb, 2003; McConaughy et al., 1998). Consistent with the extant research, Claessens et al. (2002) show that concentrated ownership of a large shareholder constitutes a strong incentive to run the firm properly. However, the authors also illustrate that higher levels of concentrated control of a large shareholder can lead to agency problems of entrenchment and value extraction. Hence, beyond an optimum level of family ownership and management, family-firm specific agency problems coming into play may harm firm performance. Accordingly, studies generally suggest a nonlinear (i.e. an inverted u-shaped) relationship between family involvement and firm performance (e.g. Sciascia & Mazzola, 2008; Anderson & Reeb, 2003a, 2003b; Claessens et al., 2002; Morck et al., 1988; Short & Keasey, 1999).

One underlying reason for the nonlinear inverted u-shaped relationship between family involvement and firm performance may be the family's tendency to pursue noneconomic goals as family ownership and management increase (Sciascia & Mazzola, 2008; Chrisman, Chua, Pearson & Barnett, 2010). They are able to do so owing to the legitimacy and power obtained through ownership and management positions they hold in the company (Chrisman et al., 2010). When the level of family management increases along with the level of family ownership, the noneconomic goals are likely to be aligned with the interests of both owners and managers, resulting in a relatively lower cost of adopting the goals and lower resistance by management and/or noncontrolling owners (Chrisman et al., 2010).

When control is concentrated in the hands of the largest shareholder, the shareholder may become entrenched and better able to extract value (Claessens et al., 2002), which may consequently harm not only firm performance but also the economy in a broader sense (Chrisman et al., 2010; Morck et al., 1998; Morck & Yeung, 2003). For example, Morck et al. (1998) show that heir-controlled Canadian firms exhibit low financial performance owing to the expropriation of noncontrolling owners' wealth and the entrenchment of poorly performing managers whose firms continue to survive through access to capital and insulation from competition via political influence. Accordingly, when controlling owners' voting rights and controlling status are enhanced while also having managers' and directors' positions secured through the use of governance provisions, controlling owners' and managers' ability to pursue the family agenda and engage in opportunistic actions can increase.

Therefore, after a certain point, family ownership and management may lead to the adoption of family-centered goals and strategies which may diminish shareholder value since the benefits of the pursuit of family-centered nonceconomic goals are usually not transferrable to nonfamily members. Furthermore, principal-principal agency costs deriving from the controlling owners' and managers' expropriation of noncontrolling shareholder wealth and their entrenchment are likely to increase, which can consequently harm firm performance (Chrisman et al., 2010).

Additionally, as discussed in the previous section, controlling families strengthen their ability to pursue family-centered noneconomic goals by using control enhancing corporate governance provisions which protect controlling owners' and managers' rights and may be associated with agency costs. According to Dyer (2006), certain governance mechanisms may be associated with more or fewer agency problems. Indeed, certain provisions protecting management and family shareholder rights can make firms susceptible to principal-principal agency problems in publicly traded family firms since they strengthen the controlling family business members' ability, power, and legitimacy to entrench themselves and extract value (Burkart et al., 2003; Claessens et al., 2002). This is relevant to Alchian and Demsetz' (1972) agency concern regarding "Who will monitor the monitor?".

Since governance provisions differentially affect the balance of power in the firm (Gompers et al., 2003), the frequency of the use of provisions protecting controlling owners, noncontrolling owners, and management are also likely to interact with family involvement components (i.e. family ownership and family management) to determine firm performance. Specifically, higher frequency of the use of provisions protecting controlling owners, management and directors, and others indicating higher management, director, and family shareholder power and ability to pursue family-centered noneconomic goals exclusively benefiting family members, are likely to weaken the positive effects and strengthen the negative effects of family involvement components on firm performance. Additionally, a higher frequency of the use of provisions protecting noncontrolling owners and others are likely to strengthen the positive effects and weaken the negative effects of family involvement components on firm performance. Owing to a prominent stream of research showing an inverted u-shaped relationship between family involvement and firm performance, this essay attempts to explore a relatively less investigated area (i.e. the moderators which may influence this relationship) in order to extend this line of research.

Moderation Effects of Provisions Protecting Controlling Owners

The higher frequency of the use of provisions, which create a wedge between controlling owners' voting rights and their cash-flow rights (i.e. unequal voting rights, cumulative voting, and supermajority) as well as secure sustainability of their controlling status through delaying or preventing takeovers (i.e. blank check, business combination law, poison pill, bylaw and charter, fair price, and antigreenmail), can elevate family owners' and managers' power. This can exacerbate expropriation of noncontrolling owners' wealth through strengthening the controlling family's ability to reap the private benefits of control and entrench themselves in ownership and management positions (Anderson & Reeb, 2003, 2004; Andres, 2008; Gomez-Mejia et al., 2001; Shleifer &

Vishny, 1997), weakening the positive effects and strengthening the negative effects of family ownership and family management on firm performance. The moderating effects of the frequency of the use of provisions protecting controlling owners in terms of their voting rights are expected to lead to a shift of the inverted u-shaped curve representing the relationship between family involvement (i.e. family ownership and family management) and firm performance.

Moreover, additional discretionary power, attained through the provisions protecting controlling owners, can allow both family owners and managers to pursue family agendas primarily benefiting the family and to consume perks, thereby reducing firm performance and noncontrolling shareholder value. At relatively smaller percentages of ownership of shares and higher voting rights, family owners' incentive to consume perks, rather than to maximize firm value increases since they gain 100 percent of the amount spent on perks, but their percentage of share in firm profits are only reduced according to their percentage share of the firm.

> Hypothesis 6a. Frequency of the use of provisions protecting controlling owners in terms of their voting rights will moderate the inverted u-shaped relationship between family ownership and firm performance, such that higher frequency of use of such mechanisms will weaken the positive effects of family ownership on firm performance up to an optimum level, and then strengthen the negative effects of family ownership on firm performance after the optimum level.
>
> Hypothesis 6b. Frequency of the use of provisions protecting controlling owners in terms of their sustainability of controlling status will moderate the inverted u-

shaped relationship between family ownership and firm performance, such that higher frequency of use of such mechanisms will weaken the positive effects of family ownership on firm performance up to an optimum level, and then strengthen the negative effects of family ownership on firm performance after the optimum level.

Hypothesis 7a. Frequency of the use of provisions protecting controlling owners in terms of their voting rights will moderate the inverted u-shaped relationship between family management and firm performance, such that higher frequency of use of such mechanisms will weaken the positive effects of family management on firm performance up to an optimum level, and then strengthen the negative effects of family management on firm performance after the optimum level.

Hypothesis 7b. Frequency of the use of provisions protecting controlling owners in terms of their sustainability of controlling status will moderate the inverted u-shaped relationship between family management and firm performance, such that higher frequency of use of such mechanisms will weaken the positive effects of family management on firm performance up to an optimum level, and then strengthen the negative effects of family management on firm performance after the optimum level.

Moderation Effects of Provisions Protecting Noncontrolling Owners

These provisions (i.e. cash-out laws and secret ballot) protect noncontrolling owners by elevating the value of noncontrolling owners' shares while selling to a controlling owner and assuring confidentiality in voting. Particularly, the secrecy of voting, which gives noncontrolling owners' a voice in firm governance, can constitute an internal control mechanism by monitoring controlling owners' actions and allowing potentially beneficial takeovers to take place by weakening the controlling family owners and managers' resistance and prevention tactics. As a result, the use of these provisions can democratize the dominant family governance context by lowering the risk of expropriation of noncontrolling owners' wealth and entrenchment of the family and facilitate raising capital through attracting outside investors. Hence, the higher frequency of the use of these provisions is expected to strengthen the positive effects and weaken the negative effects of family involvement on performance. This is expected to lead to a shift of the inverted u-shaped curve representing the relationship between family involvement (i.e. family ownership and family management) and firm performance.

Hypothesis 8a. Frequency of the use of provisions protecting noncontrolling owners will moderate the inverted u-shaped relationship between family ownership and firm performance, such that higher frequency of use of such mechanisms will strengthen the positive effects of family ownership on firm performance up to an optimum level, and then weaken the negative effects of family ownership on firm performance after the optimum level.

Hypothesis 8b. Frequency of the use of provisions protecting noncontrolling owners will moderate the inverted u-shaped relationship between family management and firm performance, such that higher frequency of use of such mechanisms will strengthen the positive effects of family management on firm performance up to an optimum level, and then weaken the negative effects of family management on firm performance after the optimum level.

Moderation Effects of Provisions Protecting Management and Directors

These provisions (i.e. classified board, special meeting, written consent, directors' duties, compensation plans, golden parachute, severance, contracts, indemnification, and limitations on director liability) protect managers and directors in terms of their position in the firm, monetarily, and legally. Family owners are often involved in management to exert family influence on the business (Brecht et al., 2005). When they are not actively involved in the management of the firm, they appoint well trusted associates to represent them (Combs, 2008; Jones et al., 2008). When managers' and directors' positions in the firm are insulated from proxy fights and takeovers, they have more freedom to act according to the controlling family's family-centered expectations and/or their own personal gains, which may not always be beneficial for firm performance. Hence, the use of provisions protecting managers and directors in terms of their positions in the firm combined with family's dominance in ownership and/or management can enhance the family's pursuing family agendas and exacerbate expropriation of noncontrolling owners' wealth and entrenchment of the controlling family, which can consequently harm firm performance.

Moreover, as discussed and hypothesized in the previous section, family controlled publicly traded firms are expected to use provisions protecting managers and directors monetarily and legally less frequently than nonfamily firms. However, when/if they are used, they are expected to weaken the positive effects of family involvement on firm performance and strengthen the negative effects, which can shift the inverted u-shaped curve representing the relationship between family involvement (i.e. family ownership and family management) and firm performance. In the absence of the concern for the monetary and legal consequences of wrongdoings, managers and directors are more likely to be in compliance with the controlling family's family-oriented expectations in their actions even if they may not be beneficial for the shareholders and firm value in general.

Hypothesis 9a. Frequency of the use of provisions protecting management in terms of their position in the firm will moderate the inverted u-shaped relationship between family ownership and firm performance, such that higher frequency of use of such mechanisms will weaken the positive effects of family ownership on firm performance up to an optimum level, and then strengthen the negative effects of family ownership on firm performance after the optimum level.

Hypothesis 9b. Frequency of the use of provisions protecting management monetarily will moderate the inverted u-shaped relationship between family ownership and firm performance, such that higher frequency of use of such mechanisms will weaken the positive effects of family ownership on firm performance up to an optimum level, and then strengthen the negative effects of family ownership on firm performance after the optimum level.

Hypothesis 9c. Frequency of the use of provisions protecting management legally will moderate the inverted u-shaped relationship between family ownership and firm performance, such that higher frequency of use of such mechanisms will weaken the positive effects of family ownership on firm performance up to an optimum level, and then strengthen the negative effects of family ownership on firm performance after the optimum level.

Hypothesis 10a. Frequency of the use of provisions protecting management in terms of their position in the firm will moderate the inverted u-shaped relationship between family management and firm performance, such that higher frequency of use of such mechanisms will weaken the positive effects of family management on firm performance up to an optimum level, and then strengthen the negative effects of family management on firm performance after the optimum level.

Hypothesis 10b. Frequency of the use of provisions protecting management monetarily will moderate the inverted u-shaped relationship between family management and firm performance, such that higher frequency of use of such mechanisms will weaken the positive effects of family management on firm performance up to an optimum level, and then strengthen the negative effects of family management on firm performance after the optimum level.

Hypothesis 10c. Frequency of the use of provisions protecting management legally will moderate the inverted u-shaped relationship between family management and firm performance, such that higher frequency of use of such mechanisms will weaken the positive effects of family management on firm performance up to an optimum level, and then strengthen the negative effects of family management on firm performance after the optimum level.

Moderation Effects of Provisions Protecting Others

The higher frequency of the use of provisions protecting others (i.e. pension parachutes and silver parachutes) has implications for greater employee care since such provisions assure severance payments and secure the pension fund for a broad group of employees in the target firm in case of an acquisition or a takeover. However, since these provisions also make a takeover or acquisition more expensive for a potential bidder (Jensen, 1988), the controlling families are likely to use them as a takeover defense. Therefore, these provisions can make a takeover or an acquisition unattractive to the bidders, owing to the high cost. Hence, they may prevent potentially value-increasing takeovers or acquisitions from occurring. Since these provisions indirectly serve the purpose of sustaining family control, they can intensify the expropriation and entrenchment issues associated with family ownership and management, weakening the positive effects of family involvement on firm performance and worsening the negative effects. This is expected to shift the inverted u-shaped curve representing the relationship between family involvement (i.e. family ownership and family management) and firm performance.

> Hypothesis 11a. Frequency of the use of provisions protecting others (i.e. a broad group of employees) will moderate the inverted u-shaped relationship between family ownership and firm performance up to an optimum level, such that higher frequency of use of such mechanisms will weaken the positive effects of family ownership on firm performance up to an optimum level, and then strengthen the

negative effects of family ownership on firm performance after the optimum level.

Hypothesis 11b. Frequency of the use of provisions protecting others (i.e. a broad group of employees) will moderate the inverted u-shaped relationship between family management and firm performance up to an optimum level, such that higher frequency of use of such mechanisms will weaken the positive effects of family management on firm performance up to an optimum level, and then strengthen the negative effects of family management on firm performance after the optimum level.

Methodology

Data Collection

Panel data regarding governance provision usage in firms was obtained from a larger project designed to investigate all the companies incorporated in the U.S. in the Investor Responsibility Research Center books in terms of their usage of 22 (business combination law and cash-out laws were missing in the dataset) out of 24 control enhancing governance mechanisms (Gompers et al., 2003). Accounting, market, ownership, and management data was obtained from Thompson Reuters Thompson One Corporate Development database. Family business members were identified by using the Hoover's database and annual reports in Mergent Online. Data is analyzed on a restricted sample of firms based on publicly available data for the lag years 2002, 2004, and 2006 regarding ownership, management, moderators, and control variables and the years 2003, 2005, and 2007 regarding the dependent variable (i.e. firm performance).

Consistent with previous studies investigating publicly traded family firms, the sample came from the first 400 firms listed in *S&P* 500 (e.g., Anderson & Reeb, 2003a, 2003b, 2004; Short et al., 2009; Combs et al., forthcoming). Missing data lowered the sample size to 386. *S&P* 500 stock market index is maintained by Standard & Poor's and involves 500 large-cap U.S. firms covering about 75% of the U.S. equity market. First, this sample includes both family and nonfamily firms. Anderson and Reeb (2003a) suggest that families are present in one-third of the *S&P* 500. Second, family firms among the population are likely to have substantial numbers of nonfamily shareholders unlike privately held firms. Hence, this sample is representative of the publicly traded family and nonfamily firm population.

Variables

Dependent Variable

Firm performance was measured by the Tobin's *q* (Chung & Pruitt, 1994) with accounting data provided by Thomson Reuters. The use of this firm performance measurement in this essay followed Anderson and Reeb (2004), Villalonga and Amit (2006a, 2006b, 2009b), and Miller et al., (2007). Tobin's *q* is a market based measure of firm performance incorporating current operations, potential growth opportunities, and future operating performance (Anderson & Reeb, 2004). Hence, it reflects both current and anticipated profitability. Additionally, this market-based measure of firm performance is reflective of shareholder wealth creation, which suits the main concerns of this dissertation.

Tobin's *q* is the ratio of the firm's market value to replacement value of its assets (Villalonga & Amit, 2006; Miller et al., 2007; Richard et al., 2009). The formula for Tobin's *q* (Miller et al., 2007) is as follows: ((commonshares outstanding*calendar year closing price)+(current liabilities-current assets)+(long-term debt)+(liquidating value of preferred stock)) / total assets). For robustness checks, data regarding other firm performance measures concerning profitability such as Return on Assets (ROA = Net Income / Average Total Assets), Return on Equity (ROE = Net Income / Shareholders' Equity), and Return on Investment (ROI = Net Income / Total Assets) (Carton & Hofer, 2006) were collected. The years were 2003, 2005, and 2007 for the dependent variable.

Independent Variables

Family ownership (FO) is the percentage of total firm ownership held by members of a family. *Family management (FM)* is the number of individual family members who are in top management and/or the board of directors. The *squared family ownership* (*FO^2*) and the *squared family management* (*FM^2*) variables were used to indicate nonlinear relationships between independent variables and dependent variable. For robustness tests, the proportion of number of family managers and/or the board of directors *(PFM)* to total number of managers and/or the board of directors was also calculated. The years were 2002, 2004, and 2006 for the independent variables.

Moderators

Moderators consist of 7 categories of governance provisions that group the 22 available provisions (Business Combination Law and Cash-out Laws were missing in the dataset) identified by Gompers et al. (2003) according to the purposes of their usage by firms. Judgment-based categorization (Perreault & Leigh, 1989) of the governance provisions was used. The validity of this categorization was confirmed by three expert judges who assessed the degree to which the provisions represent the categories (Netemeyer et al., 2003).

The first moderator was the *frequency of the use of governance provisions protecting controlling owners through voting rights (VOTING).* This variable involved the following provisions: (1) Unequal voting rights, (2) Cumulative voting, and (3) Supermajority. The second moderator was the *frequency of the use of governance provisions protecting controlling owners through sustaining control status (STATUS)* and includes the following provisions: (1) Blank check, (2) Poison pill, (3) Bylaw, (4) Charter, (5) Fair price, and (6) Antigreenmail. The third moderator, the *frequency of the use of governance provisions protecting noncontrolling owners (NONCONTROLLING)* included provisions concerning: (1) Secret ballot. The fourth moderator was the *frequency of the use of governance provisions protecting management and directors in terms of their position (POSITION).* This variable involved the following provisions: (1) Classified board, (2) Special meeting, (3) Written consent, and (4) Director's duties. The fifth moderator, the *frequency of the use of governance provisions protecting management and directors monetarily (MONETARY)* included provisions concerning: (1) Compensation plans, (2) Golden parachute, and (3) Severance. The sixth moderator was the *frequency of the use of governance provisions protecting management and directors legally (LEGAL).* This variable involved the following provisions: (1) Contracts, (2) Indemnification, and (3) Limitations on director liability. The seventh moderator was the *frequency of the use of governance provisions protecting others (OTHERS)* involving provisions: (1) Pension parachutes, and (2) Silver parachutes.

In a given year, provisions that were used by a firm were coded as “1” and provisions not used are coded as “0”. The frequency of the use of each category was calculated by adding usage/no usage figures (i.e. 1/0) in each category. For robustness tests, particularly when one provision group (i.e. NONCONTROLLING) included only one provision due to missing provision data, categorical provision group variables were also included (1 = at least one mechanism present; 0 = none). The years were 2002, 2004, and 2006 for the moderators.

Control Variables

Variables that were expected to influence firm performance were controlled. Larger companies may have performance advantages over small and medium size firms owing to economies of scale, consequently affecting their firm performance (Hansen & Wernerfelt, 1989). Hence, *firm size (FS)* was controlled and measured via the log of the number of employees following Dewar and Dutton (1986). In addition, older firms may have the advantage of being established with a history of past successes, which can influence their performance (Hansen & Wernerfelt, 1989). *Firm age (FA)* was measured as the number of years the firm has been in existence since founding. Additionally, family firms may have competitive advantages in some industries compared to others (Chrisman et al., 2010; Pollak, 1985), which can influence their performance. *Primary firm industry (FI)* was measured by classifying all firms into one of four industrial categories: (1) retail, (2) service, (3) manufacturing, and (4) other, following Chrisman et al. (2010). Three categorical variables, coded 1-0, were created to indicate retail, service, and manufacturing firms. Firms in other industries were coded as zero for each variable. For further specification of industry, four-digit SIC codes and sector names were also identified and entered for each firm.

Additionally, *generational majority in management and board* was controlled since family influence tends to be weaker when family influence is more dispersed or fractionalized owing to the involvement of later generations (Schulze et al., 2003; Gomez-Mejia et al., 2007). Two categorical variables, coded 1-0, were created to indicate first generation *(GEN1)* and second generation or later *(GEN2)*. Nonfamily firms were those coded as zero for each of these two variables. Institutional owners such as mutual or pension funds may also play a significant role in corporate decision making (Anderson & Reeb, 2004), which can consequently affect firm performance. *Institutional ownership (IO)* is the percentage of overall institutional ownership of voting shares outstanding. Similarly, ownership by other insiders can also influence decision making and firm performance (Anderson & Reeb, 2004). Hence, *other insiders' ownership (OIO),* which is the equity holdings of top managers and directors minus family ownership, was controlled to capture the incentive effects of other insiders' ownership (Anderson & Reeb, 2004). Firm risk (i.e. return volatility) may be another factor that can influence firm performance (Anderson & Reeb, 2003a, 2004) since high level of risk may result in either above average returns or large amount of losses. *Firm risk (FR)* was measured as the standard deviation of stock returns for the previous 60 months, following Anderson and Reeb (2003a, 2004).

Also, investment into R&D and internationalization may lead firms to high or low performance (Decarolis & Deeds, 1999; Graves & Langowitz, 1993; Hitt et al., 1997). Hence, these variables were controlled. *R&D (RD)* level was calculated via R&D/sales ratio (Miller et al., 2007). *Internationalization (INT)* was measured as the percentage of foreign revenue (100% - percentage of domestic revenue). The years were 2002, 2004, and 2006 for the control variables.

Analyses

Table 3.1 provides the means, standard deviations, and correlations of the variables used in the study. Table 3.2 presents the results of the Fixed Effects Tobit Models, with firm performance as the dependent variable.

Hypotheses 6a through 10c were tested via Tobit panel data analysis for lag years which are 2003, 2005, and 2007 for the dependent variable and 2002, 2004, and 2006 for the controls, independent variables, moderators, and interactions. NLOGIT version 4.0 Econometric software was used. The Fixed Effects Tobit estimation model was used to control for omitted variables that differ between cases but are constant over time, whereas random effects model is used when some variables may be constant over time but vary between cases and some variables may be fixed between cases but vary over time. NLOGIT4 selected the estimation model as the Fixed Effects estimation model. Tobit Fixed Effects estimation was used to adjust for large number of zero observations (Maddala, 1991). Prior to running the analyses, the variables' normality of their distributions was examined by graphing the distributions and examining the skewness and kurtosis in Excel. The variables which were not normally distributed were transformed (e.g. log of firm size). Additionally, Variance Inflation Factors for the variables were calculated. Additionally, Variance Inflation Factors for the variables were calculated. VIFs range between 1.10 and 3.24. Collinearity was not a problem since all VIFs were less than 10.

The number of observations in panel data analysis was 1,158 (i.e. 358 * 3 = 1,158) since the lag years were 2002, 2004, and 2006 regarding ownership, management, moderators, and control variables and the years 2003, 2005, and 2007 regarding the dependent variable (i.e. firm performance) investigated for 386 firms. G*Power software is used for power analysis. The post-hoc test computed achieved power given alpha (0.05), sample size (1,158), and conventional small (0.10), medium (0.30), and large (0.50) effect sizes. Even at a small effect size, the power was .96, giving confidence that there was enough power to detect even small effects. Conventionally, in social sciences, 80% and higher power at up to 0.10 alpha level is acceptable (Cohen, 1988).

To examine the endogeneity (i.e. reverse causality), instrumental variables for both family ownership and family management were used. Stata 11 software was used to test family ownership and family management variables for endogeneity. Durbin-Wu-Hausman test was performed by following the instructions provided by Stata at http://www.stata.com/support/. Concerning the endogeneity of family ownership, GEN 1 (1^{st} generation's majority in management and board) and GEN2 1 (2nd generation's majority in management and board) instrumental variables were used. For family management variable, the instrumental variables were GEN 1 (1^{st} generation's majority in management and board), GEN2 1 (2nd or later generation's majority in management and board), and PROPORFM (proportion of family managers and directors). Partial F-test results indicated that the co-significance of the instrumental variables for family ownership were significant ($\chi^2 = 32.45, p = .00$). Partial F-test results also indicated that the co-significance of the instrumental variables for family management were significant ($\chi^2 = 405.69, p = .00$). Durbin-Wu-Hausman test tests the null hypotheses that family ownership and family management are exogenous. Hence, the results of Durbin-Wu-Hausman show that family ownership ($\chi^2 = .57, p = .45$) and family management ($\chi^2 = 1.13, p = .29$) variables can be considered as exogenous.

In panel data analyses, Model 1 was the base model where the set of control variables are entered. Manufacturing industry, firm size, other insiders' ownership, and firm risk were significant and service industry was marginally significant. The log likelihood function was -843.70. In model 2, the independent variables were entered. The family ownership (FO) variable was positive and not significant (β=.91, ns). Family ownership squared (FOS) was negative and significant (β=-0.00, $p<0.05$). Family management (FM) was significant (β=1.10, $p<0.05$) and family management squared (FMS) was marginally significant (β=-0.18, $p<0.10$). The log likelihood function for the second model was -2902.08. Model 3 introduced the moderators. The log likelihood function for the third model was -829.03. The frequency of the use of provisions protecting managers monetarily was negative and significant (β=-0.20, $p<0.05$)

Model 4 introduced the interactions. The log likelihood function was -2796.64. The beta coefficient of Family Ownership*Frequency of the use of Provisions Protecting Controlling Owners' Voting Rights (FO*VOTINGRIGHTS) was positive and not significant (β=.20, ns) and the beta coefficient of Family Ownership^2*Frequency of the use of Provisions Protecting Controlling Owners' Voting Rights (FO^2*VOTING) was negative and not significant (β=-.01, ns). Therefore, Hypothesis 6a was not supported. The beta coefficient of Family Ownership*Frequency of the use of Provisions Protecting Controlling Owners' Status (FO*STATUS) was negative and significant (β=-.35, p<0.001) and the beta coefficient of Family Ownership^2*Frequency of the use of Provisions Protecting Controlling Owners' Status (FO^2*STATUS) was positive and significant (β=01, p<0.001). Hence, Hypothesis 6b was supported.

The beta coefficient of Family Management*Frequency of the use of Provisions Protecting Controlling Owners' Voting Rights (FM*VOTING) was negative and significant (β=-1.96, p<0.01) and the beta coefficient of Family Management^2*Frequency of the use of Provisions Protecting Controlling Owners' Voting Rights (FM^2*VOTING) was positive and significant (β=0.59, p<0.05). Therefore, Hypothesis 7a was supported. The beta coefficient of Family Management*Frequency of the use of Provisions Protecting Controlling Owners' Status (FM*STATUS) was positive and not significant (β=0.05, ns) and beta coefficient of Family Management^2*Frequency of the use of Provisions Protecting Controlling Owners' Status (FM^2*STATUS) was positive and not significant (β=0.02, ns). Hence, Hypothesis 7b was not supported.

The beta coefficient of Family Ownership*Frequency of the use of Provisions Protecting Noncontrolling Owners (FO*NONCONTROLLING) was negative and not significant (β=-0.19, ns) and the beta coefficient of Family Ownership^2*Frequency of the use of Provisions Protecting Noncontrolling Owners (FO^2*NONCONTROLLING) was negative and not significant (β=-0.00, ns). Therefore, Hypothesis 8a was not supported. The beta coefficient of Family Management*Frequency of the use of Provisions Protecting Noncontrolling Owners (FM*NONCONTROLLING) was positive and significant (β=4.21, $p<0.001$) and the beta coefficient of Family Management^2*Frequency of the use of Provisions Protecting Noncontrolling Owners (FM^2*NONCONTROLLING) was negative and significant (β=-0.84, $p<0.001$). Hence, Hypothesis 8b was supported.

The beta coefficient of Family Ownership*Frequency of the use of Provisions Protecting Managers' and Directors' Position (FO*POSITION) was positive and not significant (β=0.05, ns) and the beta coefficient of Family Ownership^2*Frequency of the use of Provisions Protecting Managers' and Directors' Position (FO^2*POSITION) was positive and not significant (β=0.00, ns). Hence, Hypothesis 9a was not supported. The beta coefficient of Family Ownership*Frequency of the use of Provisions Protecting Managers and Directors Monetarily (FO*MONETARY) was positive and significant (β=0.55, $p<0.001$) and the beta coefficient of Family Ownership^2*Frequency of the use of Provisions Protecting Managers and Directors Monetarily (FO^2*MONETARY) was negative and significant (β=-0.01, $p<0.001$). However, the significant relationships were in the opposite direction than hypothesized. Therefore, Hypothesis 9b was not supported. The beta coefficient of Family Ownership*Frequency of the use of Provisions Protecting Managers and Directors Legally (FO*LEGAL) was negative and significant (β=-0.28, $p<0.001$) and the beta coefficient of Family Ownership^2*Frequency of the use of

Provisions Protecting Managers and Directors Legally (FO^2*LEGAL) was positive and significant ($\beta=0.01$, $p<0.001$). Hence, Hypothesis 9c was supported.

The beta coefficient of Family Management*Frequency of the use of Provisions Protecting Managers' and Directors' Position (FM*POSITION) was negative and not significant ($\beta=-0.03$, ns) and the beta coefficient of Family Management^2*Frequency of the use of Provisions Protecting Managers' and Directors' Position (FM^2*POSITION) was negative and not significant ($\beta=-0.01$, ns). Therefore, Hypothesis 10a was not supported. The beta coefficient of Family Management*Frequency of the use of Provisions Protecting Managers and Directors Monetarily (FM*MONETARY) was negative and significant ($\beta=-3.09$, $p<0.001$) and the beta coefficient of Family Management^2*Frequency of the use of Provisions Protecting Managers and Directors Monetarily (FM^2*MONETARY) was positive and marginally significant ($\beta=0.33$, $p<0.10$). Hence, Hypothesis 10b was supported. The beta coefficient of Family Management*Frequency of the use of Provisions Protecting Managers and Directors Legally (FM*LEGAL) was positive and significant ($\beta=1.71$, $p<0.001$) and the beta coefficient of Family Management^2*Frequency of the use of Provisions Protecting Managers and Directors Legally (FM^2*LEGAL) was negative and significant ($\beta=-.30$, $p<0.01$). However, the significant relationships were in the opposite direction than hypothesized. Therefore, Hypothesis 10c was not supported.

The analyses did not run for the dependent variable OTHERS owing to a lot of zero values. Therefore, Hypotheses 11a and 11b could not be tested.

Although not hypothesized, the results for the assumed inverted u-shaped relationships between family involvement (i.e. family ownership and family management) and firm performance were the following: The beta coefficient of Family Ownership was positive and not significant (β=0.91, ns) and the beta coefficient of Family Ownership^2 was negative and significant (β=-0.00, $p<0.05$). The beta coefficient of Family Management was positive and significant (β=1.10, $p<0.05$) and the beta coefficient of Family Management^2 was negative and marginally significant (β=-0.18, $p<0.05$). Therefore, the assumption of inverted u-shaped relationship between family management and firm performance was supported, whereas inverted u-shaped relationship between family ownership and firm performance was not supported.

The results were compared to the Pooled Model through OLS Regression. The results of OLS were compatible with the Tobit panel data analyses. Robustness tests also include the analyses with categorical moderators (i.e. 1=at least one provision is used in each provision group; 0=none), the proportion of family managers and/or the board of directors (PFM), and other firm performance variables (i.e. ROA, ROE, and ROI). The results of these analyses were consistent with the results presented above.

In sum, the results indicate that the hypotheses concerning (a) the moderation effects of the frequency of the use of provisions protecting controlling owners in terms of their sustainability of controlling status on the inverted u-shaped relationship between family ownership and firm performance (H6b), (b) the moderation effects of the frequency of the use of provisions protecting management legally on the inverted u-shaped relationship between family ownership and firm performance (H9c), (c) the moderation effects of the frequency of the use of provisions protecting controlling owners in terms of their voting rights on the inverted u-shaped relationship between family management and firm performance (H7a), (d) the frequency of the use of provisions protecting noncontrolling owners on the inverted u-shaped relationship between family management and firm performance (H8b), and (e) the moderations effects of the frequency of the use of provisions protecting management monetarily on the inverted u-shaped relationship between family management and firm performance (H10b) were supported. In all, five of the twelve hypotheses that could be tested were supported (H6b, H9c, H7a, H8b, and H10b), two sets of relationships were significant in the opposite direction to what was predicted (H9b and H10c), and five other tests yielded no significant findings (H6a, H7b, H8a, H9a, and H10a). In addition, two other relationships that were hypothesized could not be analyzed (H11a and H11b). Significant interactions can be seen in Figures 3.2-3.8.

Table 3.3 shows the summary of findings. In the following section, the results, future research directions, and implications for practice will be discussed.

Discussion and Conclusion

Studies highlight the distinctive effects of family involvement (i.e. ownership and management) on the behavior and performance of publicly traded firms (Anderson & Reeb, 2003, 2004; Claessens et al., 2002; Villalonga & Amit, 2006a, 2006b, 2008). However, we do not know enough about how and why firm behavior and performance in family firms differ from those in nonfamily firms and among family firms themselves, and what the outcomes of the family involvement in the business are through the use of control enhancing governance mechanisms (Villalonga & Amit 2006, 2009).

To fill this gap, this essay suggests that the theory of the family firm will be advanced by the investigation of the link between family involvement components (i.e. family ownership and family management), control enhancing governance provisions, and firm performance. Accordingly, this paper addresses how the frequencies of the use of different types of control enhancing mechanisms moderate the relationship between family involvement components and firm performance. I develop and test a model linking family involvement, control enhancing corporate governance mechanisms, and firm performance on a sample of 386 of the S&P500 firms. The model in this essay is concerned with the moderation effects of the use of governance provisions on the relationship between family involvement and firm performance. It is expected that the frequency of the use of governance provisions will have a negative moderating influence on the relationship between family ownership and family management and firm performance.

The model is tested via panel data analyses. Findings support the hypotheses suggesting the moderation effects of (a) the frequency of the use of provisions protecting owners' control status on the inverted u-shaped relationship between family ownership and firm performance (H6b), (b) the frequency of the use of provisions protecting management legally on the inverted u-shaped relationship between family ownership and firm performance (H9c), (c) the frequency of the use of provisions protecting controlling owners in terms of their voting rights on the inverted u-shaped relationship between family management and firm performance (H7a), (d) the frequency of the use of provisions protecting noncontrolling owners on the inverted u-shaped relationship between family management and firm performance (H8b), and (e) the frequency of the use of provisions protecting management monetarily will moderate the inverted u-shaped relationship between family management and firm performance (H10b). The results are consistent with the expected interplay between family involvement and the use of governance provisions in influencing firm performance.

The supported moderation effects of the frequency of the use of provisions protecting controlling owners in terms of their sustainability of controlling status on the inverted u-shaped relationship between family ownership and firm performance (H6b) appears to be negative. This may be because the higher frequency of the use of provisions which secure sustainability of controlling owners' status can inflate family owners' power and authority, enabling them to engage in opportunistic behaviors. Family owners' equity rights at moderate levels enable them to effectively monitor and control, which can be beneficial to firm performance. However, enhanced power and authority through the use of provisions protecting controlling owners' status can weaken the positive effects of family ownership on firm performance since family owners may have the freedom to pursue family-centered noneconomic goals and enjoy the private benefits of control when their controlling status is secured. Particularly after an optimum level of family ownership, excessive power deriving from the combination of the higher levels of ownership and the use of provisions sustaining controlling owners' status can exacerbate principal-principal agency problems (Anderson & Reeb, 2003, 2004; Andres, 2008;

Gomez-Mejia et al., 2001; Shleifer & Vishny, 1997) by allowing family owners to pursue family agendas primarily benefiting the family, which can be detrimental firm performance.

The hypothesized positive moderation effect of the frequency of the use of provisions protecting noncontrolling owners on the relationship between family management and firm performance (H8b) was also supported. Hence, the use of provisions protecting noncontrolling owners strengthens the positive effects of family management up to an optimum level and then weakens the negative effects after an optimum level is reached. The use of secret ballot provision assuring confidentiality in voting can facilitate noncontrolling shareholders' activism directed toward the replacement of managers and directors or the transfer of control to a hostile takeover bidder in case of underperformance. Particularly, the secrecy of voting, which gives noncontrolling owners' a larger voice in firm governance, can constitute an internal control mechanism by monitoring managers and directors' actions and allowing potentially beneficial takeovers to take place by weakening the family managers' resistance and prevention tactics. As a result, the threat of shareholder activism can be an internal monitoring mechanism and thereby discipline family managers, enhancing their positive impact on firm performance up to an optimum level of family management. Also, after an optimum level of family management is reached, this can weaken the negative effects of family management on firm performance, policing their expropriation and entrenchment attempts which can be triggered by their excessive power and authority.

The hypothesis suggesting the negative moderation effects of the frequency of the use of provisions protecting controlling owners in terms of their voting rights on the relationship between family management and firm performance (H7a) was supported. Family managers' discretion to generate strategic ideas and their timely implementation can be beneficial to firm performance up to an optimum level of family management. However, the higher frequency of the use of provisions, which create a discrepancy between controlling owners' cash flow and voting rights, can further enhance both family owners' and managers' power and authority. Controlling family's excessive discretionary power on strategic decisions and actions may weaken the positive effects of family management on firm performance since family management combined with the use of provisions enhancing controlling owners voting rights can enable family managers to focus primarily on the attainment of noneconomic goals that primarily benefit the family and to consume perks. Particularly after an optimum level of family management, the combined enhancement of voting rights of the controlling family and higher levels of family involvement in management and the board can increase family managers' ability to expropriate noncontrolling shareholder wealth and entrench themselves in management and board positions (Anderson & Reeb, 2003, 2004; Andres, 2008; Gomez-Mejia et al., 2001; Shleifer & Vishny, 1997), reducing firm performance.

The significant findings in the opposite direction may initially seem paradoxical since the use of provisions protecting managers and directors monetarily has positive moderation effect on the relationship between family ownership and firm performance (H9b), while having negative moderation effect on the relationship between family management and firm performance (H10b). When family members participate in the business through ownership only, monetary protection for managers and directors diminishes managerial risk bearing for nonfamily managers, enabling their taking more risk to engage in potentially fruitful projects which may be beneficial to firm performance. Family owners' effective monitoring can also limit nonfamily managers' opportunistic behaviors. Hence, combined effective monitoring of family owners and nonfamily managers' reduced risk bearing and increased risk taking may strengthen the positive effects of family ownership on firm performance and then weaken the negative effects of family ownership on firm performance. However, the combination of family management and the use of provisions protecting managers and directors monetarily can reduce the concern for monetary consequences of managerial wrongdoings and enable family managers and directors to engage in expropriation of noncontrolling shareholder wealth and managerial entrenchment activities, which can be detrimental to firm performance.

The other conflicting set of results is regarding the use of provisions protecting managers and directors legally. The use of such provisions has negative moderation effect on the relationship between family ownership and firm performance (H9c), while having positive moderation effect on the relationship between family management and firm performance (H10c). The reason for the positive interaction between those governance provisions and family management may be that when family members directly benefit from reduced legal risk bearing because of being managers as well as owners, they may be more likely to formulate and implement aggressive business strategies with potentially high returns. However, when legal protections are provided to managers, the family owners, who may not be managers, may veto the aggressive business strategies formulated by nonfamily managers, owing to a lack of trust or a concern for socioemotional wealth, even though they may yield high returns.

There were also several hypotheses (H6a, H7b, H8a, H9a, and H10a) that were not supported concerning the moderation effects of the frequency of the use of provisions protecting (a) controlling owners' voting rights, (b) noncontrolling owners, and (c) managers and directors' positions on the relationship between family ownership and firm performance and the moderation effects of the use of provisions protecting (a) controlling owners' status and (b) managers and directors' positions on the relationship between family management and firm performance.

The frequency of the use of provisions protecting controlling owners' voting rights have significant moderation effects on the relationship between family management and firm performance (H7a), whereas it has insignificant moderation effects on the relationship between family ownership and firm performance (H6a). Accordingly, the combined effects of family management and the enhancement of controlling owners' voting rights appear to be more influential in determining firm performance than the combination of family ownership and the enhancement of controlling owners' voting rights. This may be because family owners tend to have substantial voting rights naturally deriving from their equity rights. Hence, the use of provisions enhancing controlling owners' voting rights may not substantially affect the impact of family ownership on firm performance. However, the use of provisions enhancing controlling owners' voting rights combined with family management seem to have substantial impact on firm performance because family's participation in management and board combined with the controlling owners' elevated voting rights facilitate family influence over the business through multiple dimensions.

The lack of reinforcing effects of the frequency of the use of provisions protecting noncontrolling owners on the relationship between family ownership and firm performance (H8a) may be because of the noncontrolling owners' relatively low level of influence over the business compared to controlling owners even though provisions protecting noncontrolling owners may be in use.

Also, the use of provisions protecting managers and directors' positions may not have significant influence on the effects of family ownership on firm performance (H9a) since any benefits or costs associated with those provisions may be mitigated by the monitoring abilities of family owners.

Similarly, the use of provisions protecting managers and directors' positions (H10a) do not have significant moderation effects on the relationship between family management and firm performance. This may be because family managers and directors may be naturally expecting a relatively long tenure and higher levels of job security regardless of whether the provisions protecting their positions are in place or not. Hence, the use provisions protecting managers and directors' positions do not have substantial impact on the relationship between family management and firm performance.

Finally, the use of provisions protecting controlling owners' status does not seem to influence the relationship between family management and firm performance (H7b).

This may be due to family's already assuming its control over the business through participation in management and board regardless of the use of provisions protecting their controlling status.

Moreover, the assumed, but not hypothesized, inverted u-shaped relationship between family ownership and firm performance was not significant in this study, whereas the assumed, but not hypothesized, inverted u-shaped relationship between family management and firm performance was significant. This finding draws attention to the importance of family's involvement in management and board in determining firm performance, while ownership itself does not seem be sufficient to influence firm performance. On the one hand, this finding may be contrary to some studies suggesting that family ownership, rather than family management, is the key in differentiating family firms from nonfamily firms in other countries such as Germany and Chile (e.g. Klein, 2000; Silva & Majluf, 2008). On the other hand, this finding is in line with Maury's (2006) distinction between active (i.e. family holds at least one of the top officer positions) and passive family control. The author also shows that active family control is associated with higher profitability compared to nonfamily firms, whereas passive family control does not influence profitability. Similarly, Andres (2008) shows that family firms may perform better than nonfamily firms only when the founding family is still active either on the executive or the supervisory board in Germany. The author also demonstrates that if families are only large shareholders without board representation, their firm performance is not distinguishable from that of nonfamily firms. Westhead and

Howorth (2006) also illustrate that family management, rather than family ownership, is associated with performance in firms in the UK.

This essay contributes to the literature in several ways. First, it draws attention to the importance of family involvement within the context of corporations. Second, it adds to the understanding of how publicly traded family firms differ from nonfamily firms in terms of the impact of the frequency of the use of different types of control enhancing governance mechanisms on the relationship between family involvement (i.e. family ownership and family management) and firm performance, whereas studies mostly focus on the direct effects of family involvement or governance mechanisms on the firm performance (e.g. Anderson & Reeb, 2003; Villalonga & Amit, 2008; Andres, 2008). This essay is one of the few attempts to use agency theory and family governance perspective to explain differences between publicly traded family and nonfamily firms. Third, this essay introduces the interplay between family involvement and the use of governance provisions as an explanation for the existence of principal-principal agency problems in publicly traded firms. Owing to the vital presence of family control in many corporations, it is crucial to identify the differences between publicly traded family and nonfamily firms as well as the interactions between family involvement and control enhancing corporate governance mechanisms in determining firm performance. Indeed, family involvement leading to inherent differences between family and nonfamily firms can also distinguish among family firms. Consequently, the contributions of this essay move us forward in the advancement of the theory of the family firm (Chrisman et al., 2005; Conner, 1991).

The limitations of this essay can also lead to a number of future research directions. First, as stated above, the regulatory context can affect the observed relationships and generalizability to the corporations around the world since the sample included S&P500 firms headquartered in the U.S. Even though increased globalization tends to cause similarities in business conduct in world economies, different legal regimes (e.g. common versus civil law) in different countries can result in differences in corporate governance (Peng & Jiang, 2010). For example, the legal system prevents pyramiding in the US, whereas it is permissible even in many developed countries in Asia and Europe (Peng & Jiang, 2010). Since legal context may be influential on the findings of this essay, future studies can test or extend the model in other countries with different legal systems.

Similarly, despite the panel data analyses examining multiple years (2001, 2003, and 2005 regarding ownership, management, and control variables and the lag years 2002, 2004, and 2006 regarding the frequency of the use of governance provisions), the findings may vary in other time periods (e.g. in 1990s) owing to the changes in the legal system. For example, the examined time periods in this essay involves the enactment and the aftermath of the Sarbanes-Oxley Act in 2002, also known as Investor Protection Act, as a reaction to corporate accounting scandals. This act enhanced the reliability of financial reporting, transparency, and accountability through increased internal controls and auditing (Coates, 2007). Hence, future research can compare or contrast the findings of this essay to earlier periods than the periods examined in this essay. This can also illustrate whether legislation is influential on corporate governance.

Another limitation is that, in this essay, the seven categories of governance provisions that group the 24 provisions identified by Gompers et al. (2003) according to the purposes of their usage by firms are formed by a judgment-based categorization (Perreault & Leigh, 1989). Future research using different categorizations can provide further insights.

Aside from the future research directions suggested in the discussion of findings and limitations, there may be other factors that may affect the relationship between family involvement and performance in publicly traded family firms. The imminence of succession (Chua, Chrisman & Sharma, 2003) is one of them. Furthermore, the effects of family involvement and control enhancing corporate governance mechanisms might vary in family firms depending upon diversification (Anderson & Reeb, 2003c; Jones et al., 2008), entrepreneurial orientation (Dess & Lumpkin, 2005; Lumpkin & Dess, 1996, 2001), corporate entrepreneurship (Dess et al., 1999; Lumpkin et al., 2005), and life-cycle phases. All these contingencies suggest additional applications of corporate governance to the study of family businesses.

Family involvement in corporate governance has also implications for other lines of research such as strategy processes, which can affect firm performance. Aside from the agency view of conflict among shareholders, other types of conflict within the framework of strategy processes can be investigated in publicly traded family firms. Indeed, consensus and conflict among decision makers are important elements of strategy processes since they may lead to organizational outcomes such as decision quality, superior resource stocks, and high performance (Amason, 1996; Eddleston &

Kellermanns, 2007). Consensus can facilitate cooperativeness and cohesiveness in strategy implementation, whereas moderate levels of various types of conflict (e.g. task and process conflicts) can affect firm performance positively (Kellermanns & Eddleston, 2004). In publicly traded family firms, family dynamics are expected to influence consensus or conflict since family members are usually involved in ownership, management, and board. However, we do not know enough about the impact of the family firm idiosyncrasies and the extent of family influence on the occurrence of conflict or consensus in decision making in family controlled publicly traded firms, which can affect decision quality and firm performance. Hence, future research can shed light onto how strategy processes may vary in publicly traded family firms.

In conclusion, this essay provides agency theory and family governance perspectives to family involvement in publicly traded family firms. The differences between family and nonfamily firms as well as the model presented in this essay can help scholars, family business members, and investors better understand family involvement, and how it impacts firm performance through the use control enhancing corporate governance mechanisms. If publicly traded family firms can elevate the positive effects of family involvement through the proper use of corporate governance mechanisms and mitigate agency problems, they can achieve long-term competitive advantages and superior performance. Publicly traded family firms concerned with maximizing shareholder value and attaining effective corporate governance through family control will be sought after by the investors and reap the benefits of positive corporate publicity.

Table 3.1

Descriptives and Correlations – Essay 2

Variables	M	SD	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25
1.VOT	.3	.5	1																								
2.STA	2.1	1.1	.1	1																							
3.NON	.2	.4	-.1	.01	1																						
4.POS	1.7	1.2	.1	.4	.1	1																					
5.MON	1.6	.7	.0	.2	.1	.1	1																				
6.LEG	1.0	1.0	.1	.1	.0	-.2	.0	1																			
7.OTH	.0	.2	.0	.2	.1	.1	.1	.0	1																		
8.GEN1	.1	.2	.1	-.0	-.1	-.0	-.1	-.0	.0	1																	
9.GEN2	.1	.4	-.0	-.1	-.1	-.1	-.2	.1	-.0	-.1	1																
10.RET	.1	.3	-.0	-.1	-.1	.0	-.0	-.1	-.0	.1	.1	1															
11.SER	.3	.5	-.0	-.0	-.0	.1	-.1	-.1	-.0	.0	-.0	-.2	1														
12.MAN	.4	.5	-.0	.1	.1	-.1	-.1	.1	.0	-.1	.0	-.3	-.5	1													
13.OTH	.2	.4	.0	.0	.1	-.0	.2	.1	.0	.0	-.0	-.2	-.3	-.4	1												
14.IO	32.3	11.2	-.0	.1	-.1	.1	.2	-.0	.0	-.1	-.1	.1	-.1	.0	-.0	1											
15.FA	59.2	44.6	.1	.1	.1	.	.1	.1	.0	-.2	.1	-.1	.0	.1	-.0	-.3	1										

Table 3.1 (continued)

16.FSL	4.2	. 6	-.1	.0	.3	.0	-.1	.1	.1	-.1	-.0	.2	.0	.1	-.2	-.2	.2	1									
17.OIO	4.0	6.8	-.0	-.2	-.2	-.1	-.1	-.1	-.1	-.1	-.1	.1	.0	-.0	-.1	-.0	-.2	-.2	1								
18.FR	43.9	46.6	-.0	-.0	-.1	-.0	-.0	-.2	-.0	.0	-.1	.0	-.0	.1	-.1	.2	-.3	-.2	.2	1							
19.FO	1.7	6.2	.0	-.1	-.1	-.1	-.3	.1	-.0	.3	.5	.1	.1	-.1	-.1	-.2	-.0	-.0	-.1	.0	1						
20.FOS	41.4	213.3	-.0	-.1	-.1	-.1	-.3	.1	-.0	.3	.3	.0	.1	-.1	-.1	-.2	-.0	.0	-.1	-.0	1.0	1					
21.FM	.0	.0	-.0	-.2	-.0	-.1	-.2	.1	-.1	.4	.7	.1	-.0	-.1	.0	-.1	.0	.0	-.1	-.1	.6	.5	1				
22.FMS	1.1	3.6	-.0	-.2	-.0	-.1	-.2	.1	-.1	.2	.6	.1	-.1	-.0	-.0	-.1	.0	.0	-.1	-.0	.5	.4	.9	1			
23. FP1	1.8	3.8	-.1	-.1	.0	-.1	-.1	.0	-.0	-.0	.1	.0	-.0	.1	-.1	-.0	-.0	-.1	.1	.1	-.0	-.0	.1	.0	1		
24.RD	.0	.1	-.1	-.1	-.0	-.0	.0	-.0	-.0	-.0	-.1	-.1	-.2	.4	-.2	.2	-.2	-.3	.1	.3	-.1	-.1	-.1	-.1	.1	1	
25.INT	34	22.3	.0	-.1	-.0	.0	-.1	.1	-.1	.0	-.0	-.1	-.1	.3	-.2	-.0	-.0	-.0	-.0	.2	-.0	-.0	-.1	-.1	.0	.3	1

***Variables:**
VOTING: The frequency of the provisions protecting controlling owners' voting rights
STATUS: The frequency of the provisions protecting controlling owners' controlling status
NONCON: The frequency of the provisions protecting noncontrolling owners
POSITIO: The frequency of the provisions protecting managers and directors' positions
MONETA: The frequency of the provisions protecting managers and directors monetarily
LEGAL: The frequency of the provisions protecting managers and directors legally
OTHERS: The frequency of the provisions protecting others
GEN1: First generation's majority in management and board
GEN2: Second or later generation's majority in management and board

Table 3.1 (continued)

***Variables (Descriptives and Correlations – Essay 2) continued:**
RETAIL: Retail industry
SERVIC: Service industry
MANUF: Manufacturing industry
OTHER: Other industry
IO: Institutional ownership
FA: Firm age
FSL: Log of firm size
Variables* (Continued):
OIO: Other insiders' ownership
FR: Firm risk
FO: Family ownership
FOS: Family ownership squared
FM: Family management
FMS: Family management squared
FP1: Firm performance
RD: Research and development
INT1: Internationalization

Table 3.2

Results of Analyses Testing Hypotheses 6a-11b

Dependent variable: FP1 (Firm Performance) (03, 05, 07)	**Model 1**	**Model 2**	**Model 3**	**Model 4**
Control Variables (02, 04, 06)				
GEN1 (Generational majority in management and board)	.21	-.81*	1.26*	-2.76***
GEN2 (Generational majority in management and board)	-.22	-.11	.99	-2.46***
RETAIL	.87	1.05*	.95^{+}	.96*
SERVICE	.52^{+}	-.23	.42	-.31
MANUFACTURING	.73**	.73*	.70**	.52^{+}
IO (Institutional Ownership)	.01	.00***	.01	.00***
FA (Firms Age)	-.00	-.00*	-.00	-.00^{+}
FSL (Log of Firm Size)	-.58***	.00^{+}	-.60***	.00^{+}
OIO (Other Insiders' Ownership)	.04***	-.00	.04***	-.00
RD (Research & Development)	.82	.00	.30	.00
FR (Firm Risk)	.00***	.00^{+}	.00**	.00^{+}
INT1 (Internationalization)	.00	.00***	.00	.00***
Independent Variables (02, 04, 06)				
FO (Family Ownership)		.91	-.03	.02
FOS (Family Ownership Squared)		-.00*	.00	-.02**
FM (Family Management)		1.1*	-.81	5.22***
FMS (Family Management Squared)		-.18^{+}	.13	-.65***
Moderators (02, 04, 06)				
VOTING (Frequency of the use of provisions protecting owners through voting rights)			-.11	.29
STATUS (Frequency of the use of provisions protecting owners through sustaining control status)			.01	-.02
NONCONTR (Frequency of the use of provisions protecting noncontrolling owners)			.11	-.51^{+}
POSITION (Frequency of the use of provisions protecting managers' positions)			-.00	-.11
MONETARY (Frequency of the use of provisions protecting managers monetarily)			-.20*	-.22
LEGAL (Frequency of the use of provisions protecting managers legally)			.10	-.08

Table 3.2 (continued)

Interactions (02, 04, 06)	**Model 1**	**Model 2**	**Model 3**	**Model 4**
FOVOTING (Family Ownership * Frequency of the use of provisions protecting owners through voting rights)				.20
FOSVOTING (Family Ownership Squared * Frequency of the use of provisions protecting owners through voting rights)				-.01
FOSTATUS (Family Ownership * Frequency of the use of provisions protecting owners through sustaining control status)				-.35***
FOSSTATUS (Family Ownership Squared * Frequency of the use of provisions protecting owners through sustaining control status)				.01***
FONONCONTR (Family Ownership * Frequency of the use of provisions protecting noncontrolling owners)				-.19
FOSNONCONTR (Family Ownership Squared * Frequency of the use of provisions protecting noncontrolling owners)				-.00
FOPOSITION (Family Ownership * Frequency of the use of provisions protecting managers' positions)				.05
FOSPOSITION (Family Ownership Squared * Frequency of the use of provisions protecting managers' positions)				.00
FOMONETARY (Family Ownership * Frequency of the use of provisions protecting managers monetarily)				.55***
FOSMONETARY (Family Ownership Squared * Frequency of the use of provisions protecting managers monetarily)				-.01***
FOLEGAL (Family Ownership * Frequency of the use of provisions protecting managers legally)				-.28***
FOSLEGAL (Family Ownership Squared * Frequency of the use of provisions protecting managers legally)				.01***

Table 3.2 (continued)

Interactions (02, 04, 06)	**Model 1**	**Model 2**	**Model 3**	**Model 4**
FMVOTING (Family Management * Frequency of the use of provisions protecting owners through voting rights)				-1.96**
FMSVOTING (Family Management Squared * Frequency of the use of provisions protecting owners through voting rights)				.59*
FMSTATUS (Family Management * Frequency of the use of provisions protecting owners through sustaining control status)				.05
FMSSTATUS (Family Management Squared * Frequency of the use of provisions protecting owners through sustaining control status)				.02
FMNONCONTR (Family Management * Frequency of the use of provisions protecting noncontrolling owners)				4.21***
FMSNONCONTR (Family Management Squared * Frequency of the use of provisions protecting noncontrolling owners)				-.84***
FMPOSITION (Family Management * Frequency of the use of provisions protecting managers' positions)				-.03
FMSPOSITION (Family Management Squared * Frequency of the use of provisions protecting managers' positions)				-.01
FMMONETARY (Family Management * Frequency of the use of provisions protecting managers monetarily)				-3.09***
FMSMONETARY (Family Management Squared * Frequency of the use of provisions protecting managers monetarily)				.33+
FMLEGAL (Family Management * Frequency of the use of provisions protecting managers legally)				1.71***
FMSLEGAL (Family Management Squared * Frequency of the use of provisions protecting managers legally)				-.30**
Log likelihood function	-843.70	-2902.08	-829.03	-2796.64
+p< .10; *p< .05; **p< .01; ***p< .001				

Table 3.3

Summary of Findings – Essay 2

Hypotheses	**Conditions that will demonstrate support for the hypotheses**	**Findings (Table 3.2)**
H6a	Beta coefficient of Family Ownership*Frequency of the use of Provisions Protecting Controlling Owners' Voting Rights (FO*VOTINGRIGHTS) is negative and significant ($p<0.05$) and beta coefficient of Family Ownership^2*Frequency of the use of Provisions Protecting Controlling Owners' Voting Rights (FO^2*VOTING) is positive and significant ($p<0.05$).	Not supported
H6b	Beta coefficient of Family Ownership*Frequency of the use of Provisions Protecting Controlling Owners' Status (FO*STATUS) is negative and significant ($p<0.05$) and beta coefficient of Family Ownership^2*Frequency of the use of Provisions Protecting Controlling Owners' Status (FO^2*STATUS) is positive and significant ($p<0.05$).	Supported (Figure 3.2)
H7a	Beta coefficient of Family Management*Frequency of the use of Provisions Protecting Controlling Owners' Voting Rights (FM*VOTING) is negative and significant ($p<0.05$) and beta coefficient of Family Management^2*Frequency of the use of Provisions Protecting Controlling Owners' Voting Rights (FM^2*VOTING) is positive and significant ($p<0.05$).	Supported (Figure 3.3)
H7b	Beta coefficient of Family Management*Frequency of the use of Provisions Protecting Controlling Owners' Status (FM*STATUS) is negative and significant ($p<0.05$) and beta coefficient of Family Management^2*Frequency of the use of Provisions Protecting Controlling Owners' Status (FM^2*STATUS) is positive and significant ($p<0.05$).	Not supported
H8a	Beta coefficient of Family Ownership*Frequency of the use of Provisions Protecting Noncontrolling Owners (FO*NONCONTROLLING) is positive and significant ($p<0.05$) and beta coefficient of Family Ownership^2*Frequency of the use of Provisions Protecting Noncontrolling Owners (FO^2*NONCONTROLLING) is negative and significant ($p<0.05$).	Not supported
H8b	Beta coefficient of Family Management*Frequency of the use of Provisions Protecting Noncontrolling Owners (FM*NONCONTROLLING) is positive and significant ($p<0.05$) and beta coefficient of Family Management^2*Frequency of the use of Provisions Protecting Noncontrolling Owners (FM^2*NONCONTROLLING) is negative and significant ($p<0.05$).	Supported (Figure 3.4)

Table 3.3 (continued)

Hypotheses	**Conditions that will demonstrate support for the hypotheses**	**Findings (Table 3.2)**
H9a	Beta coefficient of Family Ownership*Frequency of the use of Provisions Protecting Managers' and Directors' Position (FO*POSITION) is negative and significant ($p<0.05$) and beta coefficient of Family Ownership^2*Frequency of the use of Provisions Protecting Managers' and Directors' Position (FO^2*POSITION) is positive and significant ($p<0.05$).	Not supported
H9b	Beta coefficient of Family Ownership*Frequency of the use of Provisions Protecting Managers and Directors Monetarily (FO*MONETARY) is negative and significant ($p<0.05$) and beta coefficient of Family Ownership^2*Frequency of the use of Provisions Protecting Managers and Directors Monetarily (FO^2*MONETARY) is positive and significant ($p<0.05$).	Not supported (Significant, but in the opposite direction) (Figure 3.7)
H9c	Beta coefficient of Family Ownership*Frequency of the use of Provisions Protecting Managers and Directors Legally (FO*LEGAL) is negative and significant ($p<0.05$) and beta coefficient of Family Ownership^2*Frequency of the use of Provisions Protecting Managers and Directors Legally (FO^2*LEGAL) is positive and significant ($p<0.05$).	Supported (Figure 3.5)
H10a	Beta coefficient of Family Management*Frequency of the use of Provisions Protecting Managers' and Directors' Position (FM*POSITION) is negative and significant ($p<0.05$) and beta coefficient of Family Management^2*Frequency of the use of Provisions Protecting Managers' and Directors' Position (FM^2*POSITION) is positive and significant ($p<0.05$).	Not supported
H10b	Beta coefficient of Family Management*Frequency of the use of Provisions Protecting Managers and Directors Monetarily (FM*MONETARY) is negative and significant ($p<0.05$) and beta coefficient of Family Management^2*Frequency of the use of Provisions Protecting Managers and Directors Monetarily (FM^2*MONETARY) is positive and significant ($p<0.05$).	Supported (Figure 3.6)
H10c	Beta coefficient of Family Management*Frequency of the use of Provisions Protecting Managers and Directors Legally (FM*LEGAL) is negative and significant ($p<0.05$) and beta coefficient of Family Management^2*Frequency of the use of Provisions Protecting Managers and Directors Legally (FM^2*LEGAL) is positive and significant ($p<0.05$).	Not supported (Significant, but in the opposite direction) (Figure 3.8)
H11a	Beta coefficient of Family Ownership*Frequency of the use of Provisions Protecting Others (FO*OTHERS) is negative and significant ($p<0.05$) and beta coefficient of Family Ownership^2*Frequency of the use of Provisions Protecting Others (FO^2*OTHERS) is positive and significant ($p<0.05$).	Not tested since analyses did not run with OTHERS variable
H11b	Beta coefficient of Family Management*Frequency of the use of Provisions Protecting Others (FM*OTHERS) is negative and significant ($p<0.05$) and beta coefficient of Family Management^2*Frequency of the use of Provisions Protecting Others (FM^2*OTHERS) is positive and significant ($p<0.05$).	Not tested since analyses did not run with OTHERS variable

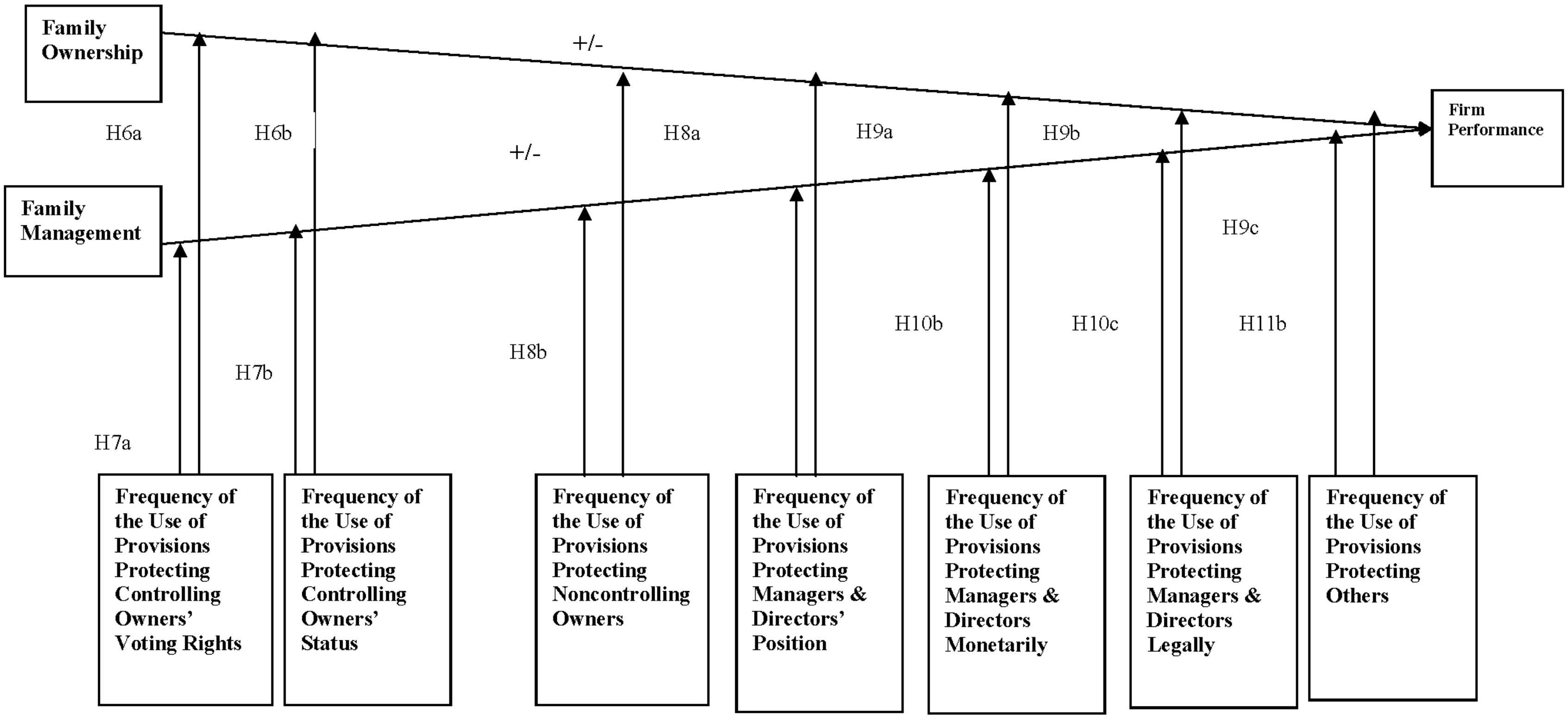

Figure 3.1 Moderation Effects of the Frequency of the Use of Governance Provisions

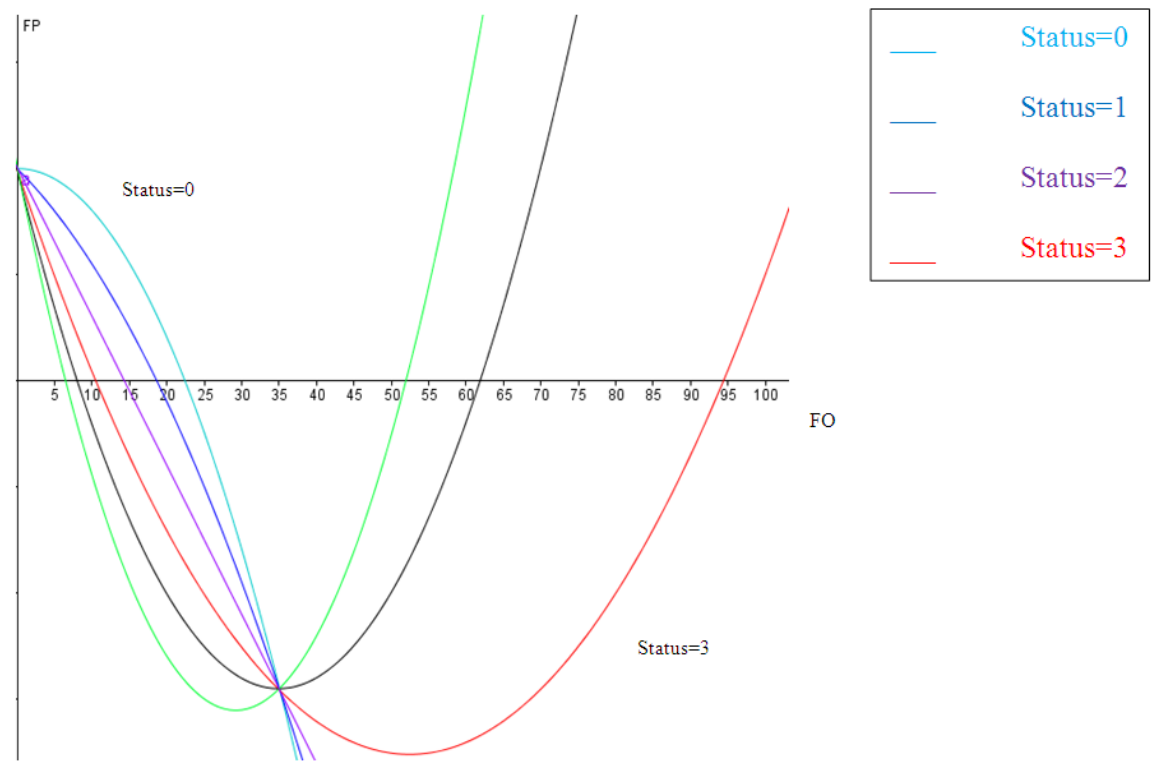

Figure 3.2 Significant Interactions between Family Ownership and Status Provision

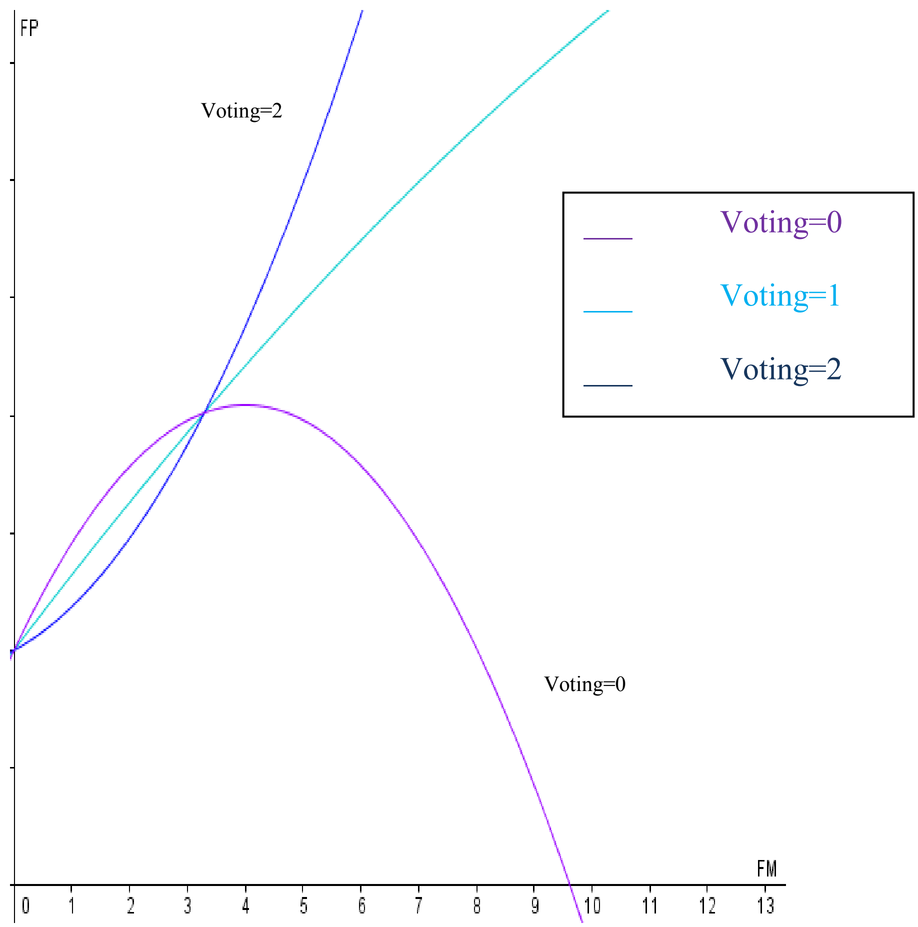

Figure 3.3   Significant Interactions between Family Management and Voting Provision

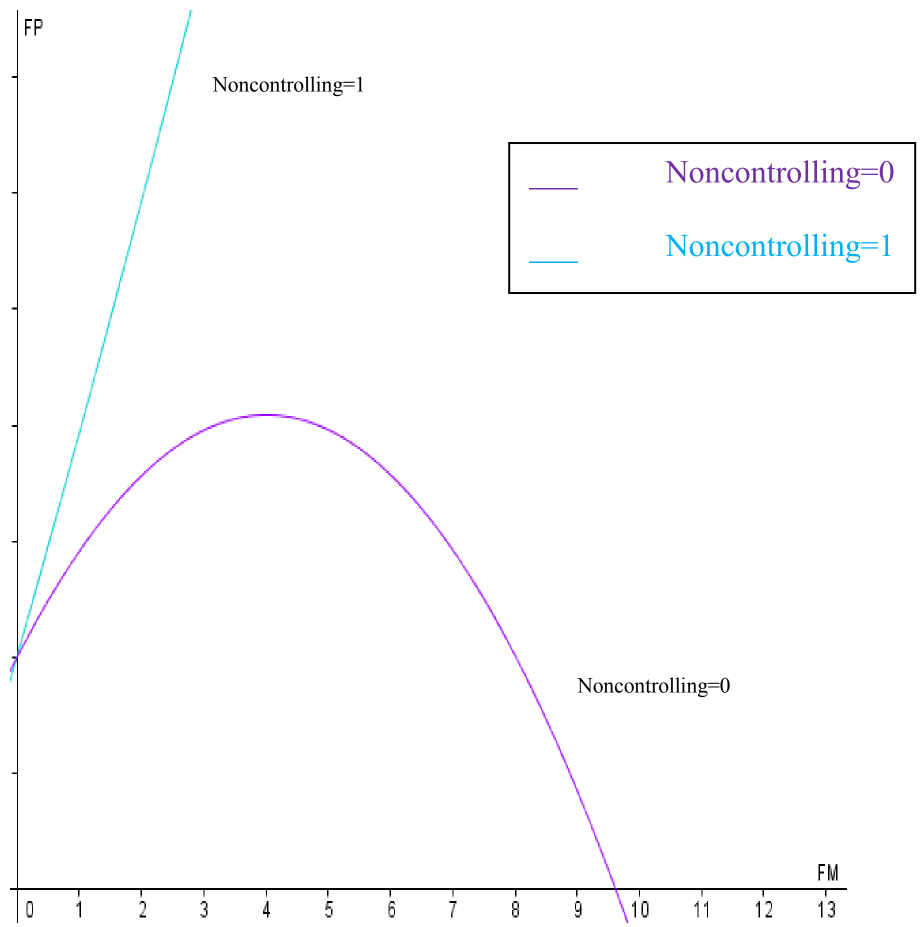

Figure 3.4 Significant Interactions between Family Management and Noncontrolling Provision

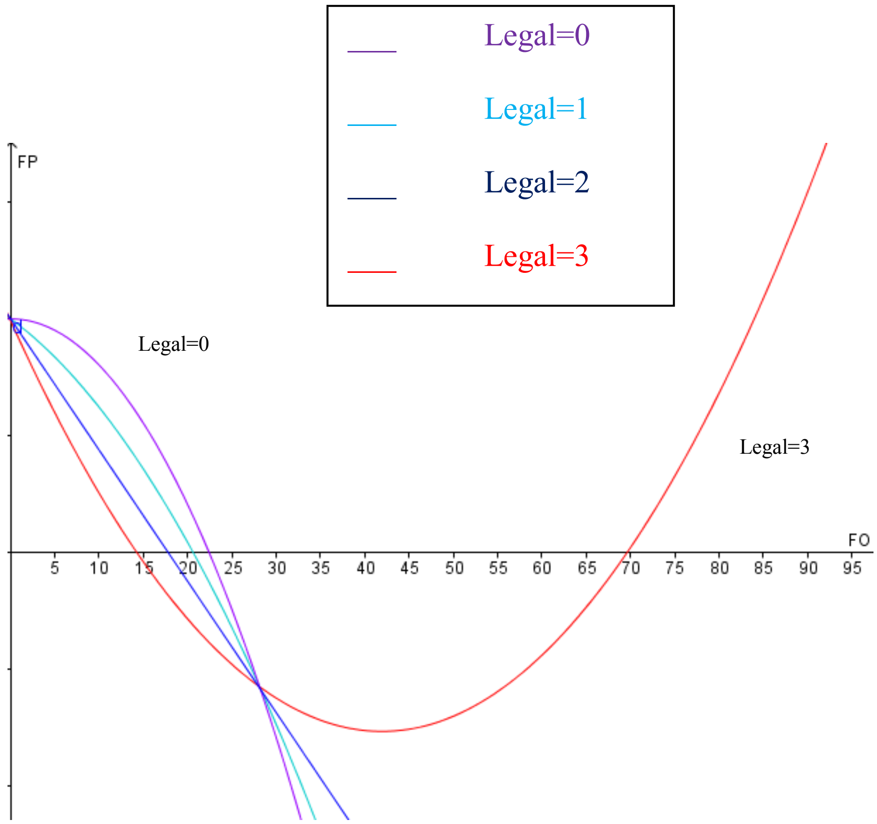

Figure 3.5 Significant Interactions between Family Ownership and Legal Provision

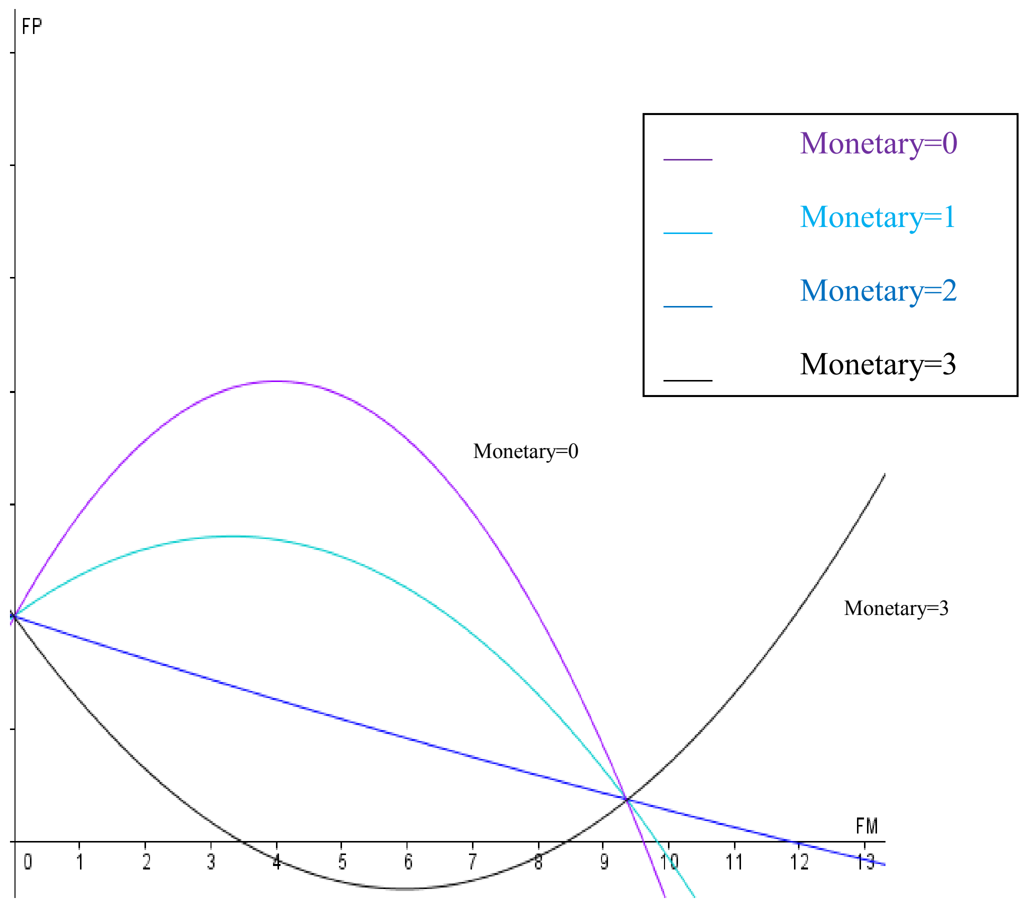

Figure 3.6 Significant Interactions between Family Management and Monetary Provision

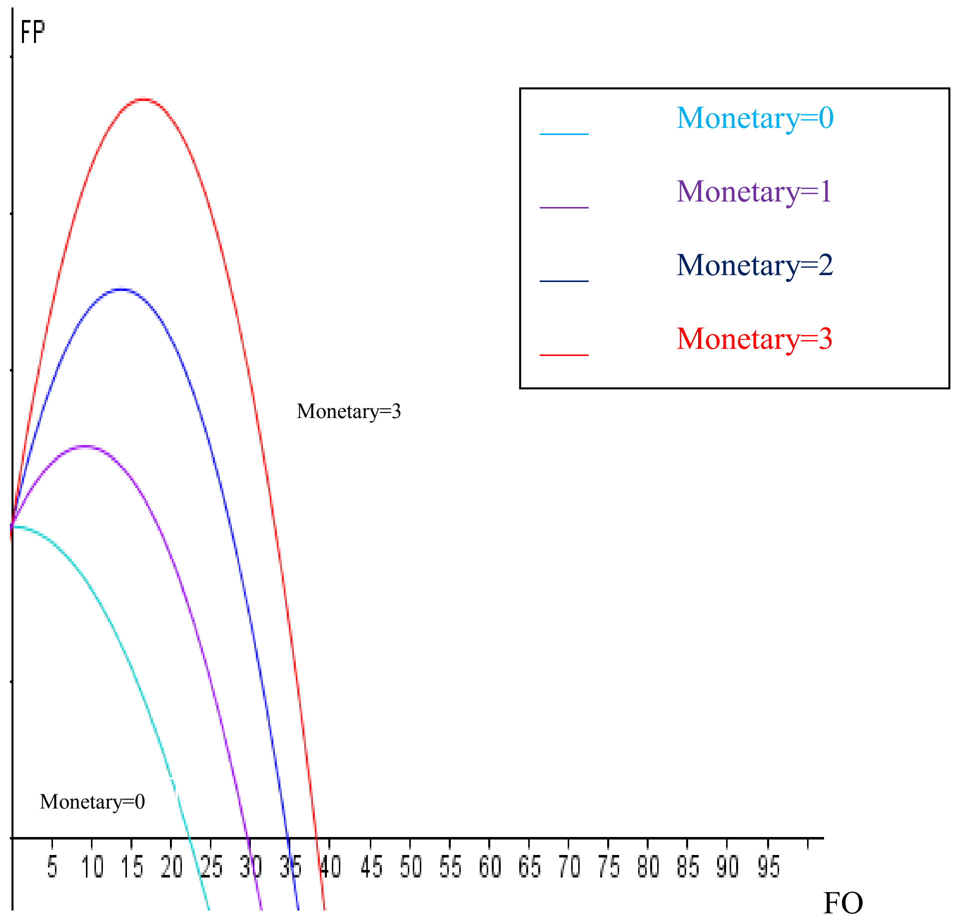

Figure 3.7 Significant Interactions between Family Ownership and Monetary Provision

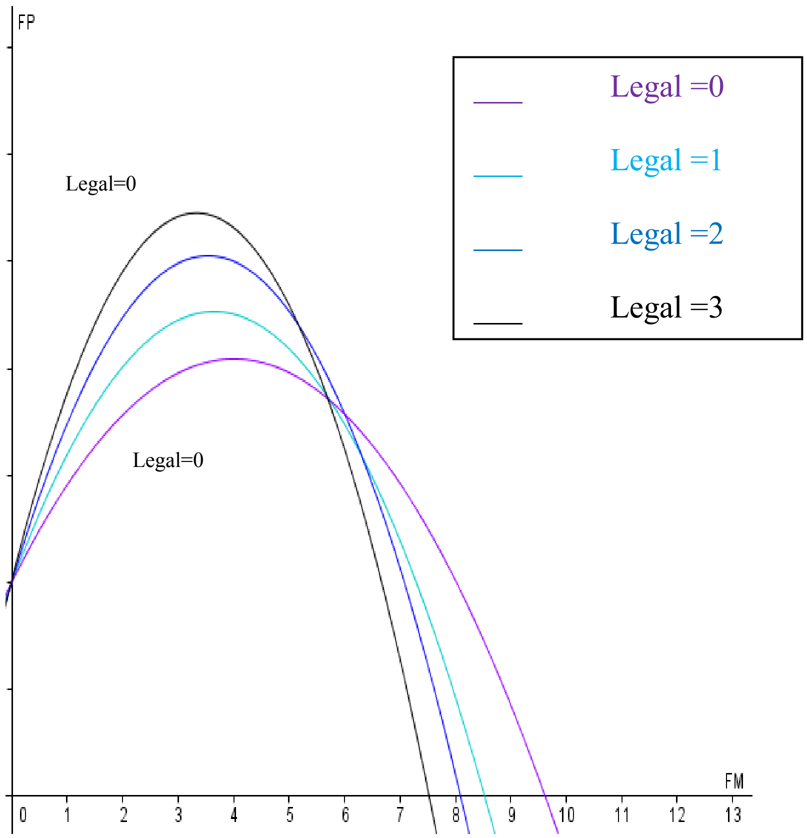

Figure 3.8 Significant Interactions between Family Management and Legal Provision

CHAPTER IV

CONCLUSION

In this dissertation, I drew upon agency theory and corporate governance to classify corporate governance provisions within the context of family firms, investigating their propensity to use governance provisions and the impact of the use of those provisions on the relationship between family involvement (i.e. family ownership and family management) and firm performance. Indeed, the strategic decisions concerning the use of provisions and their interplay with family involvement components in influencing firm performance may shed light onto the governance dynamics associated with principal-principal agency issues in family controlled firms and the differences between not only family and nonfamily firms, but also among family firms themselves.

In Essay 1, I applied agency theory and corporate governance to classify control enhancing corporate governance provisions and to examine the use of these provisions within the context of publicly traded family firms. First, I classified governance provisions within the context of family firms based on the purpose of usage and the existence of different interest groups (i.e. controlling owners, noncontrolling owners, managers and directors, and a broad group of employees) in publicly traded family firms. Then, I argued that family ownership and family management would differentially influence the frequency of the use of different types of control enhancing governance provisions. Specifically, I argued that family ownership will influence the frequency of the use of different types of provisions and family management will moderate the relationships between family ownership and the frequency of the use of governance provisions. I developed and tested the hypotheses on a sample of 386 of S&P500 firms. Findings did not support the hypothesized relationships in Essay 1.

Several explanations are provided concerning the insignificant hypothesized relationships. First, the use of provisions might be institutionalized among corporations. This may have prevented the influential effects of family ownership and family management on the adoption and the use of provisions. Second, family firms may not need to use provisions more than nonfamily firms since their involvement in ownership and/or management already provides adequate protection of their interests. Moreover, family owners and managers with stewardship tendencies may choose not to use provisions which may be primarily benefiting the controlling family, rather than the firm and all shareholders as a whole. Furthermore, family owners and managers may have no greater power than nonfamily firms in the US to implement governance provisions owing to a strong legal system that places limits on the dominance of owners and managers.

The results in Essay 1 also show interesting significant relationships between the use of provisions and the generation that is predominant among family managers and board members. Therefore, the generation of the family in charge tends to play a critical role on the propensity to use provisions.

In Essay 2, I investigated the link between family involvement (i.e. family ownership and family management), the use of governance provisions, and firm performance. I suggested that the frequency of the use of different types of control enhancing governance provisions differentially influence the relationship between family involvement (i.e. family ownership and family management) in the business and firm performance. I developed and tested the hypotheses on the same sample I used in Essay 1. Findings supported the hypotheses suggesting the moderation effects of (a) the frequency of the use of provisions protecting controlling owners in terms of their sustainability of controlling status on the inverted u-shaped relationship between family ownership and firm performance, (b) the frequency of the use of provisions protecting management legally on the inverted u-shaped relationship between family ownership and firm performance, (c) the frequency of the use of provisions protecting controlling owners in terms of their voting rights on the inverted u-shaped relationship between family management and firm performance, (d) the frequency of the use of provisions protecting noncontrolling owners on the inverted u-shaped relationship between family management and firm performance, and (e) the frequency of the use of provisions protecting management monetarily on the inverted u-shaped relationship between family management and firm performance.

Concerning the moderation effects of the frequency of the use of provisions protecting controlling owners in terms of their sustainability of controlling status on the inverted u-shaped relationship between family ownership and firm performance, the higher frequency of the use of these provisions can elevate family owners' power. This increased power of the controlling family can enable family owners to pursue family-centered goals and reap the private benefits of control, exacerbating principal-principal agency problems and reducing firm performance. The significance of the moderations effects of the frequency of the use of provisions protecting management legally on the relationship between family ownership and firm performance may be owing to the family managers’ freedom to act in accordance with the family owners family-centered expectations through the insulation from the legal consequences of wrongdoings.

Furthermore, the significant moderation effects of the frequency of the use of provisions protecting controlling owners in terms of their voting rights on the inverted u-shaped relationship between family management and firm performance may be explained by the strengthened discretionary power of the controlling family, allowing family managers to pursue family oriented goals primarily benefiting the family, thereby reducing firm performance. Similarly, the significance of the frequency of the use of provisions protecting management monetarily on the inverted u-shaped relationship between family management and firm performance may be that it reduces the monetary incentive of managers and directors for increasing firm performance. Unlike other provision groups with negative moderation effects, the positive significant moderation effect of the frequency of the use of provisions protecting noncontrolling owners on the inverted u-shaped relationship between family management and firm performance may be because of the threat of shareholder activism disciplining family managers and directors and mitigating their opportunistic behaviors.

A significant finding in the opposite direction is concerning the moderation effect of the use of provisions protecting managers and directors monetarily on the relationship between family ownership and firm performance. Findings suggest significant positive moderation effect of the higher frequency of the use of such mechanisms on the relationship between family ownership and firm performance, rather than negative moderation effect as hypothesized. This may be because of the combined benefits of family ownership ensuring effective monitoring and nonfamily managers and directors' lower risk bearing facilitating their risk taking and engaging in potentially profitable projects, which can be beneficial to firm performance.

The other significant finding in the opposite direction than hypothesized is the moderation effects of the use of provisions protecting managers and directors legally on the relationship between family management and firm performance. Findings suggest positive moderation effects of the use of provisions protecting managers and directors legally on the relationship between family management and firm performance, rather than the hypothesized negative moderation effects. It appears that when the family shares the benefits of legal protection for managers, they may more likely to pursue high risk-high return strategies than when they do not.

Hence, the results of this dissertation show that family ownership and family management are not related to the use of different types of governance provisions in publicly traded firms. However, the use of governance provisions tends to affect the relationship between the components of family involvement (i.e. family ownership and family management) and firm performance.

On the one hand, as suggested in Essay 1, the findings concerning the lack of impact of family ownership and family management on the use of governance provisions have implications for the applicability of institutional and stewardship theories aside from agency theory and corporate governance in studies exploring the use of provisions in publicly traded family firms. Indeed, studies investigating the use of provisions in publicly traded family versus nonfamily firms through the lens of institutional theory can shed light onto how and why the use of provisions may be similar in the two types of firms, thereby providing a better understanding of the governance dynamics in family controlled corporations. In addition, studies examining the propensity to use provisions in family firms within the framework of stewardship theory can explain why family owners and managers might be prone to show forbearance in the use of provisions even though their control of the firm might allow them the discretion to act more forcefully in their own interests.

On the other hand, in Essay 2, the results suggesting the moderation effects of the use of provisions on the relationship between family involvement (i.e. family ownership and family management) and firm performance can be largely explained with agency theory logic. The use of provisions (e.g. provisions protecting controlling owners' voting rights) can enhance controlling family's power, authority, and legitimacy. Consistent with the main tenets of principal-principal agency view, increased power can enable family owners and managers to act opportunistically by expropriating shareholder wealth and entrenching themselves, if they want to. This consequently harms firm performance. Future research can build on the findings of this essay by investigating the impact of other contingencies (e.g. imminence of succession, diversification, entrepreneurial orientation, corporate entrepreneurship, and life-cycle phases) on the relationship between family involvement in corporate governance and firm performance.

In sum, the findings of this dissertation can help scholars and practitioners have a better understanding of how and why family involvement in corporate governance can lead to distinct firm behavior and performance differences not only between family firms and nonfamily firms, but also among family firms themselves. If family firms can capitalize on the positive impact of family influence over the business and restrict agency problems, they can both prosper and exemplify effective corporate governance practices.

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APPENDIX A

SUMMARY OF AGENCY THEORY

APPENDIX A

Summary of Agency Theory

Authors	Agency Issues	Agency Theory
Ross (1973)		. All contractual arrangements contain important elements of agency (p. 134).
Jensen & Meckling (1976)	Owner-manager	. Agency relationship: A contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to agent (p. 308). . Agency costs (p. 308): (1) The monitoring expenditures by the principal, (2) The bonding expenditures by the agent (3) The residual loss . Agency costs arise in any situation involving cooperative effort (p. 309). . The issues associated with the separation of ownership and control are intimately associated with the general problem of agency. . The private corporation is simply one form of legal fiction which serves as a nexus for contracting relationships and which is also characterized by the existence of divisible residual claims on the assets and cash flows of the organization which can generally be sold without permission of the other contracting individuals (p.311). . The firm is a legal fiction which serves as a focus for a complex process in which the conflicting objectives of individuals are brought into equilibrium within a framework of contractual relations (p.311). . As the owner-manager's fraction of equity falls, his fractional claim on the outcomes falls and this will tend to encourage him to appropriate larger amounts of the corporation resources in the form of perquisites for his own consumption (p. 313). . As the manager's ownership claim falls, his incentive to devote significant effort to creative activities such as seeking out new profitable ventures falls (p. 313).

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Authors	Agency Issues	Agency Theory
Demsetz (1983)	Owner-manager	. Ownership of the modern corporation is so diluted among the multitude of shareholders that their interests are essentially unrepresented when corporate management makes is decision. . Not every owner of shares can or wishes to control management, but those who purchase shares do presume that in the typical case there will be some owners with enough stake to oversee management (p. 387).
Fama & Jensen (1983a)	Owner-manager	. The decision process is in the hands of professional managers whose interests are not identical to those of residual claimants (P. 6). . The separation of ownership and control is more precisely the separation of residual risk bearing from decision functions.
Fama & Jensen (1983b)	Benefits of separating residual claimants from decision makers	. Control of agency problems in the decision process is important when the decision managers who initiate and implement important decisions are not the major residual claimants and therefore do not bear a major share of the wealth effects of their decisions. Without effective control procedures, such decision managers are more likely to take actions that deviate from the interests of residual claimants. . An effective system for decision control implies, almost by definition, that the control (ratification and monitoring) of decisions is to some extent separate from the management (initiation and implementation) of decisions. Individual decision agents can be involved in the management of some decisions and the control of others, but separation means that an individual agent does not exercise exclusive management and control rights over the same decisions (p. 304).
Demsetz & Lehn (1985)	Benefits of concentrated ownership	. The more concentrated is ownership, the greater degree to which benefits and costs are borne by the same owner. . In a very diffusely owned firm, the divergence between benefits and costs would be much larger for the typical owner, and he/she can be expected to respond by neglecting some tasks of ownership.

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Authors	Agency Issues	Agency Theory
Eisenhardt (1985)	Agency problem	The agency problem is to determine the optimal contract for the agent's service (p.136).
Shleifer & Vishny (1986)	Large minority shareholder	The presence of a large minority shareholder provides a partial solution to the free-rider problem (p. 461).
Eisenhardt (1989)	Owner-manager	Agency problem arises when (a) the desires or goals of the principal and agent conflict and (b) it is difficult *or* expensive for the principal to verify what the agent is actually doing. The problem here is that the principal cannot verify that the agent has behaved appropriately. The second is the problem of risk sharing that arises when the principal and agent have different attitudes toward risk. The problem here is that the principal and the agent may prefer different actions because of the different risk preferences (p. 58).
Walsh & Seward (1990)		. 4 classes of managerial entrenchment practices: (1) Alter person assessments (2) Alter situation assessments (3) Alter performance assessments Neutralize internal control mechanisms
Jensen (1994)	Conflicts of interests and self-control problems	. Money is not always the best way to motivate people. People are motivated by other things than money. . 2 sources of agency costs: (1) Conflicts of interests between people (2) Self-control problems-that is the actions that people take that harm themselves as well as those around them (p. 12). . The central proposition of agency theory is not that people are self-interested , or that conflicts exist. The central proposition of agency theory is that rational self-interested people always have incentives to reduce or control conflicts of interest so as to reduce the losses these conflicts engender (p. 13, 14). . Even if we instill more altruism in everyone, agency problems would not be solved. Put simply, altruism, the concern for the well-being of others, does not turn people into perfect agents who do the bidding of others (p. 14).

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Authors	Agency Issues	Agency Theory
Shleifer & Vishny (1997)	Owner-manager Owner-owner	. The opportunities for managers to abscond with financiers' funds, or to squander them on pet projects, are plentiful and well-documented (p. 773). . Large investors reduce agency costs (p. 739). . Concentrated ownership has its costs as well (i.e. potential expropriation by large investors of other investors and stakeholders in the firm) (p. 739). . Managers can expropriate shareholders by entrenching themselves and staying on the job even if they are no longer competent or qualified to run the firm (p. 742,743).
La Porta et al. (1999)	Owner-owner	of the controlling family, but at the same time they have the power to expropriate the minority shareholders as well as the interest in so doing. Cash flow ownership by the controlling shareholder mitigates this incentive for expropriation, but does not eliminate it (p. 511).
Short & Keasey (1999)	Owner-owner	. The UK management become entrenched at higher levels ownership than their US counterparts (p. 79). . In the UK, management do not have the same freedom as their US counterparts to mount takeover defenses.
Ang et al. (2000)	Owner-manager Owner-owner	Agency costs are significantly higher when an outsider rather than an insider manages the firm; inversely related to the manager's ownership share; increase with the number of nonmanager shareholders.
Johnson et al. (2000)	Owner-owner	Tunneling comes in 2 forms (p. 22, 23): (1) A controlling shareholder can simply transfer resources from the firm for his own benefit through self-dealing transactions, such as outright theft or fraud, asset sales and contracts such as transfer pricing advantageous to the controlling shareholder, excessive executive compensation, loan guarantees, and expropriation of corporate opportunities. (2) A controlling shareholder can increase his/her share of the firm without transferring any assets through dilutive share issues, minority freeze-outs, insider trading, creeping acquisitions, or other financial transactions that discriminate against minorities.

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Authors	Agency Issues	Agency Theory
La Porta et al. (2000)	Owner-owner	. The fundamental agency problem is not the conflict between outside investors and managers, but rather that between outside investors and controlling shareholders who have nearly full control over the managers (p. 15). . In many countries, expropriation of minority shareholders and creditors by the controlling shareholders is extensive.
Demsetz & Villalonga (2000)	Owner-manager	. Diffuse ownership, while it may exacerbate some agency problems, also yields compensating advantages that generally offset such problems (p. 209).
Dharwadkar et al. (2000)	Owner-owner	. Weak governance and limited protection of minority shareholders intensify traditional principal-agent problems (perquisite consumption and entrenchment) and create unique agency problems (expropriation) (p. 650).
Scharfstein & Stein (2000)	Owner-manager	. By rent-seeking, division managers can raise their bargaining power and extract greater overall compensation from the CEO. And because the CEO is herself an agent of outside investors, this extra compensation may take the form not of cash wages, but rather of preferential capital budgeting allocations (p. 2537). . CEO has the authority to allocate new investment across divisions and is charged with identifying, hiring, and retaining the division managers (p. 2541). . CEO is the only one with any meaningful authority to allocate resources (p. 2559).
Gomez-Mejia et al. (2001)	Owner-owner	. One cannot assume that the motivation, desires, and concerns of the family executive are identical to those of other family shareholders, nor that the family executive will try to do what is best for the firm rather than pursue a personal agenda (p. 7). . Higher executive entrenchment under family contracting because emotions may color perceived competence of the executive, reducing monitoring effectiveness. In other words, family status leads to biased judgment about the appropriateness of executive decisions (p. 8).

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Authors	Agency Issues	Agency Theory
Anderson et al. (2002)	Shareholder-bondholder	. Founding family firms have incentive structures that result in fewer agency conflicts between equity and debt claimants. . Bond holders view family ownership as an organizational structure that better protects their interests (p. 1). . Family CEOs are more entrenched in their positions (p. 3).
Claessens et al. (2002)	Owner-owner	. Separating control rights and cash-flow rights can create agency costs larger than the costs associated with a controlling shareholder who has a majority of cash-flow rights (p. 30). . East Asian firms show a sharp divergence between cash-flow rights and control rights-that is, the largest shareholder is often able to control a firm's operations with a relatively small direct stake in its cash-flow rights. Control is often enhanced beyond ownership stakes through pyramid structures and cross-holdings, and sometimes through dual-class shares. . The risk of expropriation of minority shareholders by large, controlling shareholders is an important agency problem in most countries (p. 30).
Boubaker (2003)	Owner-owner	. Large controlling shareholders maintaining a grip on control while holding small fraction of cash flow rights are inclined to expropriate minority shareholders. . Pyramiding is the main device set to unduly entrench the large controlling shareholder (p. 1).
Anderson & Reeb (2003a)	Owner-owner	. Founding families have the incentives and power to take actions that benefit themselves at the expense of firm performance (p. 1304). . Family ownership and control is associated with greater managerial entrenchment.
Anderson & Reeb (2003b)	Owner-owner	. The consideration of potential owner-owner conflicts provides a new perspective on the relative role of independent directors in mitigating agency conflicts. Outside shareholders call for independent directors on the board to minimize family opportunism (p. 4). . Families themselves do not seek to place independent directors on the board.

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Authors	Agency Issues	Agency Theory
Lemmon & Lins (2003)	Owner-owner	. In many East Asian firms, managers are able to effectively control the firm even though they may have relatively low cash flow ownership (p. 1447). . The ability to control the firm's assets is a necessary antecedent for expropriation of minority shareholders.
Morck & Yeung (2003)	Owner-manager Owner-owner	. In widely held firms, the concern is that professional managers may fail in their fiduciary duty to act for public shareholders. . In family business groups, the concern is that managers may act for the controlling family, but not for shareholders in general. . Agency issues are: the use of pyramidal groups to separate ownership from control, the entrenchment of controlling families, and non-arm's-length transactions (a.k.a. "tunneling") between related companies that are detrimental to public investors (p. 1). . Beyond a certain point, increased managerial ownership reduces the efficacy of the corporate governance mechanisms (p. 8).
Cronqvist & Nilsson (2003)	Owner-owner	. The controlling families have entrenched themselves considerably, suggesting that they derive large private benefits, and have close to complete discretion over the firm's decisions while owning only a fraction of the firm's equity in Sweden. . The lower operating performance is likely to stem from suboptimal investment decisions (p. 714). . Family controlling minority shareholders hang on to the control too long from the non-controlling shareholders' perspective; e.g., firms with family control are much less likely to be taken over compared to other firms (p. 715).
Holderness (2003)	Owner-owner	. Block ownership is motivated both by the benefits of shared control: blockholders have the incentive and the opportunity to increase a firm's expected cash flows that accrue to all shareholders; and by the private benefits of control: blockholders have the incentive and the opportunity to consume corporate benefits to the exclusion of smaller shareholders (p. 60).

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Authors	Agency Issues	Agency Theory
Gilson & Gordon (2003)	Owner-manager Owner-owner	. The presence of a large shareholder may better police management than the standard panoply of market-oriented techniques (p. 785). . The presence of a controlling shareholder reduces the managerial agency problem but at the cost of the private benefits agency problem. . Because there are costs associated with holding a concentrated position and with exercising the monitoring function, some private benefits of control may be necessary, to induce a party to play that role. . Noncontrolling shareholders will prefer the presence of a controlling shareholder so long as the benefits from reduction in managerial agency costs are greater than the costs of private benefits of control. . A controlling shareholder may extract private benefits of control in one of three ways: by taking a disproportionate amount of the corporation's ongoing earnings, by freezing out the minority, or by selling control (p. 786).
Gilson (2004)	Owner-manager Owner-owner	. The role of controlling shareholders lies at the intersection of the two elements of the agency problem that is at the core of the public corporation governance. . The first element is the familiar agency problem that arises from the separation of ownership and control. . The second element is the conflict between controlling and noncontrolling shareholders over the potential for the controlling shareholder to extract private benefits of control. . The less the equity the controlling shareholder has, the greater the incentive to use control to extract private benefits.

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Authors	Agency Issues	Agency Theory
Anderson & Reeb (2004)	Owner-owner	. The influence of independent directors may represent an important line of defense that minority shareholders can employ in protecting themselves against opportunism by large shareholders (p. 211). . Family influence provides benefits to minority shareholders, but too much influence creates the potential for moral hazard conflicts between the family and outside shareholders. . When the divergence between family- and outside-shareholder interests becomes large and costly, independent directors can intervene to protect the interests of all shareholders. . Inefficient controlling shareholders: The cost of private benefit extraction exceeds the benefits of more focused monitoring of management-minority shareholders are worse off from the monitoring effort. . Efficient controlling shareholders: The benefits of more focused monitoring exceed the cost of private benefit extraction and the value of minority shares increases as a result.
Steier et al. (2004)		. Recent research suggests that agency issues in family firms are more complex than previously believed (p. 298). . Entrenched ownership and asymmetric altruism could create their own agency problems that must be controlled. . Agency issues are made more complex because of the juxtaposition of economic and non-economic goals in family firms.
Morck et al. (2005)	Owner-owner	. Control rights exceeding cash flow rights protect the controlling owner from losing power and lead to agency problems, including non-value maximizing investment and incentives to divert resources (p. 675).
Miller & Le Breton-Miller (2006)	Owner-manager Owner-owner	. Agency costs between owners and managers can be advantageously low if there is a close alignment or even identity between the interests of owners and managers (p. 74).

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Authors	Agency Issues	Agency Theory
Villalonga & Amit (2006a)	Owner-manager Owner-owner	. Owner-manager conflict in nonfamily firms is more costly than the conflict between family and non-family shareholders in founder-CEO firms. . The conflict between family and nonfamily shareholders in descendant-CEO firms is more costly than the owner-manager conflict in nonfamily firms (p. 1).
Villalonga & Amit (2006b)	Owner-manager Owner-owner	. Ownership concentration can mitigate the agency problem between owners and managers, but the separation of control and cash-flow rights can create substantial agency costs between large and small shareholders, as large shareholders can appropriate private benefits of control without incurring their fair share of the cost (p. 1, 2). This agency problem can be particularly acute when the large shareholder is an individual or family, since the incentives for both monitoring the affairs of the company and expropriating private benefits are not as diffuse as they are in most institutions.
Maury (2006)	Owner-manager Owner-owner	. The benefits from family control occur in nonmajority held firms (p. 321). . Family control lowers the agency problem between owners and managers, but gives rise to conflicts between the family and minority shareholders when shareholder protection is low and control is high.
Ali et al. (2007)	Owner-manager Owner-owner	. Compared to nonfamily firms, family firms in the U.S. face less severe agency problems that arise from the separation of ownership and management. . However, they are characterized by more severe agency problems that arise between controlling and noncontrolling shareholders (p. 1).
Young et al. (2008)	Owner-owner	. Principal-principal conflicts are characterized by concentrated ownership and control, poor institutional protection of minority shareholders, and indicators of weak governance such as fewer publicly traded firms, lower firm valuations, lower levels of dividends payout, less information contained in stock prices, less investment in innovation, and, in many cases, expropriation of minority shareholders (p. 197).

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Authors	Agency Issues	Agency Theory
Villalonga & Amit (2009a)	Owner-manager Owner-owner	. When founders and their families are in control, the competitive advantage explanation dominates (p. 5). . When non-founding families and individual blockholders are in control, the private benefits explanation dominates. . While all types of controlling families and individuals seek to maximize value for themselves, only founding families are willing and able to maximize value for all shareholders.
Villalonga & Amit (2009b)	Owner-manager Owner-owner	. In large U.S. corporations, founding families are the only blockholders whose control rights on average exceed their cash-flow rights (p. 3047). . Indirect ownership through trusts, foundations, limited partnerships, and other corporations is prevalent but rarely creates a wedge (a pyramid). . The primary sources of the wedge are dual-class stock, disproportionate board representation, and voting agreements. . Potential agency conflict between large shareholders and public shareholders in the U.S. is as relevant as elsewhere in the world.
Chrisman et al. (2010)		. Owner-owner agency problems appear particularly persistent in family firms. . Research is needed to assist in understanding the attributes that give rise to this type of agency problem. . Research that helps us understand the forces that facilitate or mitigate the power of controlling owners to expropriate minority shareholder wealth (compared to the ability of managers to expropriate shareholder wealth in general) in family firms would be valuable (p. 20).

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SUMMARY OF CORPORATE GOVERNANCE

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Summary of Corporate Governance*

Authors	Corporate Governance and Control
Herman (1981)	. Control relates to power (p. 17). . The diffusion of ownership eventually makes possible the control of large corporations with very small stockholdings (i.e. 1 to 5 percent) (p. 24). . Two criteria for a cohesive group control (p. 25, 26): (1) Use of voting powers, directly or by threat, in a collective manner, designed to influence the selection of board of directors (2) Use or threat of the use of power to buy and sell stock on a collective basis allowing them to exercise a decisive or substantial influence over corporate decision making . The dominant owners occupy the top offices themselves, or they select those who do (p. 26). . Strategic position as the basis of control is attained by one of the following (p. 26): (1) Initial possession of a large stock ownership position or a major stock acquisition; (2) Role in organization and promotion; (3) Management changes (4) The gradual accretion of power from within the organization . Ownership has been and remains an important basis for obtaining strategic position (p. 27). . Stock-based power and strategic position reinforce each other (p. 27). . The great majority of outside directors of large managerial companies play a limited, dependent, and passive role that has remained essentially unchanged (p. 32). . A friendly, helpful but definitely unthreatening, and perhaps really compliant and passive, board may be the norm (p. 37). . A very large proportion of outside directors have ties and obligations to insiders that are likely subtly to compromise their independence (p. 45). . Directors in large mainstream corporations normally tend to play a passive role, as invited guests, characteristically tied to the inside hosts by some sort of personal or business relationship (p. 48). . Management's control is facilitated by its domination of the board selection processes and the resultant capacity of top officials to mold boards into friendly and compliant bodies. The recent increase in number and proportion of outside directors, and the shift in director composition, has not altered this pattern to any significant degree (p. 52).

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Authors	Corporate Governance and Control
Jensen & Ruback (1983)	. Corporate takeovers generate positive gains, that target firm shareholders benefit (p. 1).
Demsetz & Lehn (1985)	. Those who own large fractions of the outstanding shares of a firm either manage the firm themselves or are positioned to see to it that management serves their interests (p. 1161).
Grossman & Hart (1986)	. Ownership is the purchase of the residual rights of control (p. 692). . Ownership is the power to exercise control (694).
Harris & Raviv (1988)	. One share-one vote constitutes a socially optimal corporate governance rule (p.). . Other majority rules and/or multiple classes of shares are not socially optimal.
Grossman & Hart (1988)	. One share-one vote maximizes the importance of benefits to security holders relative to benefits to the controlling party (p.).
Morck et al. (1989)	. A hostile bidder often buys the firm and implements profit increasing changes against the wishes of both the board and the top management of the target (p. 843).
Harris & Raviv (1991)	. Conflicts between shareholders and managers arise because managers hold less than 100% of the residual claim (p. 300). . This inefficiency is reduced the larger is the fraction of the firm's equity owned by the manager.
Davis (1991)	. The adoption of a poison pill is an exemplar of an agency problem, in which the interests of shareholders (i.e. in retaining an unfettered ability to receive takeover offers) conflict with those of managers (i.e. in protecting themselves and their organization from unwanted takeovers). The ability to affect this change both indicates and enhances managerial discretion: the apparent harmfulness to shareholders of poison pills implies that managers who are able to get them adopted already have substantial discretion, and once in place they buffer managers and their organization from the market for corporate control by raising the barriers to takeover (p. 585, 586).
DeMarzo (1993)	. Majority voting by shareholders is constrained by a group of shareholders, or Board of Directors, who control the voting agenda (p. 713). . Shareholders not on the Board have no influence on the equilibrium production choice of the firm. . Agenda control implies full control over the firm's investments (p. 714).

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Authors	Corporate Governance and Control
Beatty & Zajac (1994)	. Agency approaches can apply not only in situations in which managers own little equity, but in all situations in which there is no single 100-percent owner/entrepreneur who bears the full cost of his or her actions (p. 315). . A heavy use of insider directors who are from top management still suggests relatively weak monitoring (p. 318). . Insider-dominated boards imply problematic self-monitoring and particularly weak monitoring of the CEO. . Large-scale owners with large equity holdings and who is not on the board are likely to be keen monitors of managerial behavior. . The presence of an outside board chairman who is not also CEO can represent an additional monitor of managerial behavior (p. 319).
Hart (1995)	. Corporate governance issues arise in an organization whenever two conditions are present. First there is an agency problem, or conflict of interest, involving members of the organization – these might be owners, managers, workers or consumers. Second, transaction costs are such that this agency problem cannot be dealt with through a contract (p. 678). . Governance structure allocates residual rights of control over the firm's nonhuman assets (p. 680). . Because of the separation of ownership and control, and the lack of monitoring, there is a danger that the managers of a public company will pursue their own goals at the expense of those of shareholders (p. 681). . A major part of corporate governance concerns the design of such checks and balances.
Agrawal & Knoeber (1996)	. Monitoring by the firm's own large owners and board members creates its own agency problem: Who monitors the monitors? (p. 380). . More concentrated shareholdings by insiders provide a greater incentive to monitor and reward the chief executive effectively.
Wright et al. (1996)	. The relationship between insider ownership and corporate risk taking may become negative at high levels of insider equity ownership (p. 444).
Turnbull (1997)	. Corporate governance describes all the influences affecting the institutional processes, including those for appointing the controllers and/or regulators, involved in organizing the production and sale of goods and services (p. 181).
Danielson & Karpoff (1998)	. Supermajority vote requirements, classified boards, and shareholder meeting requirements tend to be used in concert (p. 1). . Firms with poison pills tend to have relatively high institutional ownership and low managerial ownership, but a high proportion of independent directors.

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Authors	Corporate Governance and Control
Bolton & Scharfstein (1998)	. Because large shareholders have a lot at risk, they will have incentives to monitor and control management (p. 101).
Bolton & Von Thadden (1998)	. Ownership structure (p. 2): (1) Ownership concentration: A large blockholder is expected to exercise control of management continuously. (2) Ownership dispersion: With reliance on secondary market trading to create concentration whenever necessary for intervention in managerial decision making. . The benefits of dispersion are mainly greater market liquidity and better risk-diversification (p. 2).
Gedajlovic & Shapiro (1998)	. Concentrated ownership is a powerful constraint on managerial discretion (p. 535). . In the U.S., shares in most large firms are relatively widely held, such that the largest shareholder holds a modest stake in the company (p. 536).
	. Unless board members are significant owners, their incentive to monitor is low and will not approach that of a dominant, or majority shareholder.
Duggal & Millar (1999)	. Institutional investors enhance corporate efficiency in two ways. First, institutional investors perform quality research in order to identify efficient firms for investing funds, thus directing scarce capital to its most efficient use. Second, large institutional stakes in public corporations provide strong economic incentives for institutional investors to monitor managers (p. 105).
Denis & Sarin (1999)	. Ownership changes directly cause changes in the top management team and in board structure (p. 189).
Mishra & Conaughy (1999)	. Founding family control, not managerial ownership, matters in determining the level of debt financing (p. 62). . The aversion of debt by founding family controlled firms may have the side effect of reducing their potential growth rates by giving up profitable growth opportunities. . There is a potential for a conflict of interests between the founding family controlled firm CEO and outside shareholders in the form of the CEO reducing his risk exposure at the expense of the shareholders' potential higher returns in growth opportunities (p. 63).

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Authors	Corporate Governance and Control
Lazonick & O'Sullivan (2000)	. The corporations tended to both retain the money that they earned and the people whom they employed, and they reinvested in physical capital and complementary human resources. (p. 14). . Retentions in the forms of earnings and capital consumption allowances provided the financial foundations for corporate growth, while the building of managerial organizations to develop and utilize productive resources enabled investments in plant, equipment, and personnel to succeed (p. 14, 15).
Gillan & Starks (2000)	. The primary emphasis of activist shareholders has been to focus on the poorly performing firms in their portfolio and to pressure the management of such firms for improved performance, thus enhancing shareholder value.
Holmstrom & Kaplan (2001)	. The 1980s ushered in a large wave of merger, takeover, and restructuring activity (p. 121). . In the 1990s, hostility declined substantially. At the same time, other corporate governance mechanisms began to play a larger role.
Daily et al. (2003a)	. Inside equity owners, are likely exhibit fundamentally different relationships with firm processes and outcomes as compared to external equity owners. . Whereas inside owners are concerned with minimizing their exposure to risk, external owners may prefer managers to adopt relatively more risk in order to pursue growth opportunities.
Holderness (2003)	. Ownership concentration appears to have little impact on firm value (p. 60).
Singh & Davidson (2003)	. Managerial ownership is positively related to asset utilization but does not serve as a significant deterrent to excessive discretionary expenses (p. 793). . Independent outsiders on a board do not appear to protect the firm from agency costs. . Higher executive representation on the board does not lead to higher agency costs in terms of managerial discretion expenses (p. 814).
Daily et al. (2003b)	. Governance: the determination of the broad uses to which organizational resources will be deployed and the resolution of conflicts among the myriad participants in organizations (p. 371). . Corporate governance mechanisms provide shareholders some assurance that managers will strive to achieve outcomes that are in the shareholders' interests (p. 372). . Shareholder activism is designed to encourage executives and directors to adopt practices that insulate shareholders from managerial self-interest by providing incentives for executives to manage firms in shareholders' long-term interests (p. 373).

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Authors	Corporate Governance and Control
Gedajlovic et al. (2003)	. Governance can be conceptualized as a coherent system of incentives, authority relations, and norms of legitimacy (p. 910).
Klapper & Love (2004)	. Better corporate governance is highly correlated with better operating performance and market valuation (p. 703).
Klein et al. (2005)	. Effective compensation, disclosure and shareholder rights practices enhance performance and this is true for most ownership types in Canadian firms (p. 769).
Morck et al. (2005)	. Outside the US and the UK, large corporations usually have controlling owners, who are usually very wealthy families. Pyramidal control structures, cross shareholding, and super-voting rights let such families control corporations without making a commensurate capital investment (p. 655).
Pagano & Volpin (2005)	. Weak shareholder protection allows entrepreneurs to extract private benefits of control (p. 1027).
Yeh (2005)	. The corporate value is higher when the largest shareholder owns more shareholder rights (ownership) in Taiwanese firms, supporting the positive incentive effect (p. 313). . The negative entrenchment effect becomes evident when the largest shareholder's cash flow rights are less than the median. . If the cash flow rights owned by the larger shareholder will restrain the negative entrenchment effect. . In family-controlled companies, the corporate value will decrease if the largest shareholder enhances their voting rights through cross-shareholding, deeply participates in management or controls most board of directors.
Gourevitch & Shinn (2005)	. Corporate governance is about power and responsibility (p.).
Morck & Steier (2005)	. Corporate governance in many countries is remarkably concentrated in the hands of a few wealthy families (p. 3). . Governance can deteriorate over a wide swathe of the economy if the patriarch, or heir, controlling a large business group grows inept, excessively conservative or overly protective of the status quo. . A pyramid is a structure in which an apex shareholder, usually a wealthy family, controls a single company, which may or may not be listed. Structures such as these are ubiquitous outside the UK and US (p. 2).

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Authors	Corporate Governance and Control
Cremers & Nair (2005)	. Blockholders and the board of directors are often seen as the primary internal monitoring mechanism, while takeovers and the market for corporate control are the primary external mechanism. These different mechanisms work together in a system to affect governance in firms (p. 2859). . Internal and external governance mechanisms are complements in being associated with long-term abnormal returns (p. 2862).
Becht et al. (2005)	. Collective action problem can be mitigated by: (1) Partial concentration of ownership and control in the hands of one or a few large investors (2) Hostile takeovers and proxy voting contests, which concentrate ownership and/or voting power temporarily when needed (3) Delegation and concentration of control in the board of directors (4) Alignment of managerial interests with investors through executive compensation contracts (5) Clearly defined fiduciary duties for CEOs together with class-action suits that either block corporate decisions that go against investors' interests, or seek compensation for past actions that have harmed interests. . The favored mechanism for resolving collective action problems among shareholders in most countries appears to be partial ownership and control concentration in the hands of large shareholders. Two important costs associated with this form: (1) Potential collusion of large shareholders with management against smaller investors (2) The reduced liquidity of secondary markets . The fundamental issue concerning governance by shareholders today seems to be how to regulate large or active shareholders so as to obtain the right balance between managerial discretion and small shareholder protection (p. 1).
Beiner et al. (2006)	. There is a positive relationship between corporate governance and firm value, i.e., firms with better corporate governance standards receive higher market valuations (p. 252).
Bebchuk et al. (2008)	. Increases in the entrenchment index (i.e. staggered boards, limits to shareholder bylaw amendments, poison pills, golden parachutes, and supermajority requirements for mergers, and charter amendments) level are monotonically associated with economically significant reductions in firm valuation as well as negative abnormal returns (p. 1).

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Villalonga (2008)	. The value of a share depends on who holds it (p. 1).

* The articles listed in Appendix B are concerning corporate governance pertaining to i) corporate control, power, ownership, and performance; ii) shareholder value and activism; and iii) control enhancing mechanisms.

APPENDIX C

CORPORATE GOVERNANCE PROVISION DEFINITIONS

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Corporate Governance Provision Definitions

Provisions	Definitions
Provisions protecting controlling owners through enhancing voting rights	
Unequal Voting Rights	To limit voting rights of some shareholders and expand those of others.
Cumulative Voting	Allows shareholders to concentrate their votes and helps minority shareholders to elect directors.
Supermajority	Voting requirements for approval of mergers.
Provisions protecting controlling owners through sustaining controlling status	
Blank Check	A preferred stock over which the BOD has broad authority to determine voting, dividend, conversion, and other rights. It is used to prevent takeover by placing this stock with certain friendly investors.
Business Combination Law	Requires a waiting period for transactions such as mergers, unless the transaction is approved by the BOD.
Poison Pills	Give the holders of the target firm's stocks the right to purchase stocks in the target at a discount and to sell shares at a premium if ownership changes. This makes the target unattractive.
Bylaw	Amendment limitations limit shareholders' ability to amend the governing documents of the company.
Charter	Limitations to change the governing documents of the company.
Fair Price	Requires a bidder to pay to all shareholders the highest price paid to any during a period of time before the commencement of an offer. This makes an acquisition more expensive.
Anti-greenmail	Prohibits a firm's controlling owners/managers from paying a raider 'greenmail', which involves the repurchase of blocks of company stock, at a premium above market price, in exchange for an agreement by the raider not to acquire the firm. Eliminating greenmail may discourage potential bidders from considering the target firm for a takeover.

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Provisions	Definitions
Provisions protecting noncontrolling owners	
Cash-out Laws	Shareholders can sell their stakes to a controlling shareholder at a price based on the highest price of recently acquired shares. It works as fair-price provisions extended to nontakeover situations.
Secret Ballot	Confidential voting. Either an independent third party or employees sworn to secrecy count proxy votes and management does not look at proxy cards.
Provisions protecting management and directors' positions	
Classified Board	The board is split into different classes, with only one class up for election in a given year. Hence, an outsider who gains control of a corporation may need to wait a few years in order to be able to gain control of the board.
Special Meeting Limitations	Bidders must wait until the regularly scheduled annual meeting to replace BOD or dismantle takeover defenses.
Written Consent Limitations	Bidders must wait until the regularly scheduled annual meeting to replace BOD or to dismantle takeover defense.
Directors' Duties	Provides BOD with a legal basis for rejecting a takeover that would have been beneficial to shareholders.
Provisions protecting management and directors monetarily	
Compensation Plans	In case of a change in control, this provision allows participants of incentive bonus plans to cash out options or accelerate the payout of bonuses.
Golden Parachutes	Severance agreements that provide cash or noncash compensation to senior executives upon an event such as termination, demotion, or resignation following a change in control.
Severance	Agreements assuring executives of their positions or some compensation and are not contingent upon a change in control.

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Provisions	Definitions
<u>Provisions protecting management and directors legally</u>	
Contracts	Indemnifies officers and directors from certain legal expenses and judgments resulting from lawsuits.
Indemnification	Indemnify officers and directors from certain legal expenses and judgments resulting from lawsuits pertaining to their conduct.
Limitations on Director Liability	Limit directors' personal liability.
<u>Provisions protecting others</u>	
Pension Parachutes	To prevent an acquirer from using surplus cash in the pension fund of the target firm.
Silver Parachute	To provide severance payments to a large number of firm's employees upon a change in control.

APPENDIX D

SUMMARY OF PERFORMANCE DIFFERENCES

APPENDIX D

Summary of Performance Differences between Publicly Traded
Family and Nonfamily Firms

Literature	Main Arguments and Findings	Research	How Family Firms are Defined	Performance Measure	Control Variables	Sample	Period
Morck et al. (1988)	. Tobin's *Q* first increases, then declines, and finally rises slightly as ownership by the BOD rises. . For older firms, there is evidence that *Q* is lower when the firm is run by a member of the founding family than when it is run by an officer unrelated to the founder (p. 293)	Empirical					
Hoy & Verser (1994)	The findings of Daily and Dollinger (1992) that the unified ownership and control leads to performance advantages also supports the idea of a competitive advantage for such firms (p. 15).	Theoretical					

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Literature	Main Arguments and Findings	Research	How Family Firms are Defined	Performance Measure	Control Variables	Sample	Period
McConaughy et al. (1998)	. Founding family controlled firms are more efficient and valuable than non-founding family controlled firms that are similar with respect to industry, size, and managerial ownership. . Descendant-controlled firms are more efficient than founder-controlled firms. . Family relationships improve monitoring while providing incentives that are associated with better firm performance (p. 1).	Empirical	CEOs are either the founder or a member of the founder's family.	Firm value (Market-to-book equity)	. Size . Industry . Managerial Ownership	219 firms listed in the *Business Week* CEO 1000	. CEO information: October 21, 1987 . Managerial ownership: June 1987 *Disclosure* . Firm age: time from founding until 1988. . Other data: 198-1988 from Compustat

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Literature	Main Arguments and Findings	Research	How Family Firms are Defined	Performance Measure	Control Variables	Sample	Period
Morck et al., (1998)	. Heir-controlled Canadian firms show low financial performance (p. 1). . Concentrated, inherited corporate control impedes growth. . The negative relationship between heir control and economic growth is due to heirs often being entrenched poor managers whose firms nonetheless survive due to their preferential access to capital and protection from competition (p. 40).	Empirical	. Heir controlled: Firms controlled by descendants of their founders. . Business entrepreneur-controlled: Firms controlled by the founders.	. Return on Assets . Return on Sales . Real growth in total sales . Growth in number of employees	. Firm size . Firm age . Industry	Canadian firms	1984-1989

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Literature	Main Arguments and Findings	Research	How Family Firms are Defined	Performance Measure	Control Variables	Sample	Period
James (1999a)	. Family owned and managed firms exhibit performance advantages relative to firms in which the ownership and control functions are separated (p. 42). . There is evidence from firms with public stock offerings that family-run businesses outperform professionally-managed companies (p. 53).	Theoretical					
McConaughy & Phillips (1999)	. Founder-controlled firms grow faster and invest more in capital assets and research and development. . However, descendant-controlled firms are more profitable (p. 123).	Empirical	Publicly owned firms whose CEOs are either the founder or a member of the founder's family.	Average annual value		90 founder-controlled firms and 57 descendant-controlled firms in October 21, 1987 Business Week CEO 1000	. 1986-1988 for financial performance . 1987 for controlling owner information

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Literature	Main Arguments and Findings	Research	How Family Firms are Defined	Performance Measure	Control Variables	Sample	Period
Habbershon & Williams (1999)	. Family companies have been described as having patient capital with the capacity to invest in long-run return opportunities. . They place emphasis on company growth potential over short-term sales growth. . Because of their long-run view, family firms are said to be less reactive to economic cycles, have a lower cost of capital, and have outperformed the S&P 500. . Family firms have been described as having higher profit margins, faster growth rates, more stable earnings, and lower dividend rates. . Family firms have exhibited lower debt/equity levels and provided a much better return on the original investment (p. 5).	Theoretical					

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Literature	Main Arguments and Findings	Research	How Family Firms are Defined	Performance Measure	Control Variables	Sample	Period
Smith & Amoako-Adu (1999)	. When family successors are appointed, stock prices decline, whereas there is no significant decrease when either non-family insiders or outsiders are appointed in Canadian family controlled firms. . The negative stock market reaction to family successors is related to their relatively young age which may reflect a lack of management experience rather than their family connection per se.	Empirical	An actively managed family firm: (1) a corporation in which a person or a group related by family ties holds the largest voting block and holds at least 10% of the total votes, and (2) the president and/or CEO is a family member before the succession.	. Abnormal stock return: The difference between the monthly return of the company stock and the TSE 300 Total Return Index over the four years ending before the announcement of the resignation. . The average difference between the company’s annual return on assets less the median return on assets of the industry for the four years prior to the succession.		124 actively managed family firms which were listed on the TSE between 1962-1996 and underwent a succession in which a family member, nonfamily insider or an outsider was appointed to be president or CEO.	1962-1996

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Literature	Main Arguments and Findings	Research	How Family Firms are Defined	Performance Measure	Control Variables	Sample	Period
Short & Keasey (1999)	. The results indicate that the non-linear relationship exists between performance and managerial ownership in UK (p. 98, 99). . The combination of the convergence of interest and entrenchment effects point towards a non-linear relation between the performance of firms and managerial ownership (p. 81).	Empirical	Managerial ownership: % of shares held by directors and their immediate families at the accounting year end.	. Market value of equity at the accounting year end, divided by the book value of equity at the accounting year end. . Return on shareholders' equity equal to profits attributable to shareholders divided by shareholders' equity and reserves.	. Size: log of firm's sales. . Growth: average annual growth in sales . Debt: total debt divided by book value of total assets . RDTA: R&D expenditure divided by total assets.	UK firms in the official list of London Stock Exchange	1988-1992
Claessens et al. (2002)	. Firm value increases with the cash-flow ownership of the largest shareholder in East Asia. . Firm value falls when the control rights of the largest shareholder exceed its cash-flow rights (p. 2741).	Empirical	Family owning group: a group of people related by blood or marriage.	Firm value: market-to-book ratio.	. Sales growth in the previous year . Capital spending relative to sales in the previous year . Firm age . Firm size . Industry	East Asian corporations	1996

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Literature	Main Arguments and Findings	Research	How Family Firms are Defined	Performance Measure	Control Variables
Anderson & Reeb (2003a)	. Family firms perform better than nonfamily firms. . Relation between family holdings and firm performance is nonlinear. . When family members serve as CEO, performance is better than with outside CEOs. . Family ownership is an effective organizational structure (p. 1301).	Empirical	The fractional equity ownership of the founding family and/or the presence of family members on the BOD used to identify family firms.	. Tobin's Q . ROA . ROE . Net Income	. Firm size: log of the book value of total assets. . Growth opportunities: the ratio of R&D to total sales. . Firm risk: the standard deviation of monthly stock returns for the prior 60 months. . Debt: long-term debt divided by total assets. . Firm age: the natural log of the number of years since the firm's founding. . Outside directors . CEO compensation . Blockholders with at least a 5% equity stake. . Incentive effects of other insiders' ownership: Equity holdings of officers and directors less family ownership.

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Literature	Main Arguments and Findings	Research	How Family Firms are Defined	Performance Measure	Control Variables	Sample	Period
Anderson & Reeb (2003b)	. Independent director influence exhibits a positive and significant relation to firm value in founding-family firms. . As family power increases and independent director influence decreases, firm value decreases (p. 28).	Empirical	Family firm when founding family is present in the firm.	. Tobin's Q: market value of total assets divided by the replacement costs of assets. . Economic Value Added: Net operating profit less the opportunity cost of capital for the funds invested in the firm.	. Firm size: log of total assets. . Investment opportunity: R&D expenses/ fixed assets. . Firm risk: standard deviation of stock returns for the previous 60 months. . Firm age: log of the number of years since the firm's founding. . Officer and director holdings less family ownership. . Long-term debt/total assets. . EBITDA: Return on Assets	S&P 500 firms	1992-1999

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Literatur e	Main Arguments and Findings	Research	How Family Firms are Defined	Performance Measure	Control Variables	Sample
Burkart et al. (2003)	. A professional manager is a better manager than the heir (p. 2167). . The separation of ownership and management is an indication of a superior corporate governance environment (p. 2193).	Theoretical				
Cronqvist & Nilsson (2003)	. Family controlling minority shareholders (CMSs) are associated with largest discount on firm value in Sweden. . Return on assets is significantly lower for firms with concentrated vote control. . Family CMSs seem to hang on to the control too long (p. 695). . The lower operating performance is likely to stem from suboptimal investment decisions.	Empirical	. Controlling owner: an owner with > and equal to 25% of the votes. . Founder family ownership: Ownership by the founder or descendants of the founder , and individuals affiliated with the founder. . Non-founder family ownership: The aggregate block vote ownership > and equal to 5% of the votes by individuals unaffiliated with the founder.	Tobin's Q: the ratio of market value of assets to the replacement cost of total assets, which is a measure of the contribution of intangible assets.	. Firm size . Leverage	309 Swedish firms traded on Stockholm Stock Exchange during 1991-1997.

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Literature	Main Arguments and Findings	Research	How Family Firms are Defined	Performance Measure	Control Variables	Sample	Period
Anderson & Reeb (2004)	. Family firms, on average, perform better than non-family firms. This result, however, appears to be primarily driven by family firms with greater degrees of board independence relative to family firms with few independent directors (p. 231). . When family control of the board exceeded independent director control, the firm's performance was significantly poorer; when family control was less than independent directors', performance was better (p. 232).	Empirical	Family firm is defined based on the fractional equity ownership of the founding family and/or the presence of family members serving on the BOD.	Tobin's Q: the market value of total assets divided by the replacement costs of assets.	. Firm size . Institutional owners . Incentive effects of other insiders' ownership: the equity holdings of officers and directors minus family ownership. . CEO compensation	S&P 500 firms between 1992-1999.	1992-1999

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Literature	Main Arguments and Findings	Research	How Family Firms are Defined	Performance Measure	Control Variables	Sample	Period
Klein et al. (2005)	No evidence that family ownership affects performance in Canadian firms (p. 770).	Empirical	Family control: A family controlling 10% or more of the voting rights.	Firm value: Tobin's Q	. Firm size . Leverage (Debt/Equity ratio) . Average sales growth . Profit variability . Industry	263 Canadian firms	2002
Barth et al. (2005)	. Family-owned firms are less productive than nonfamily-owned firms in Norway. . Family owned firms managed by a person hired outside the owner family are equally productive as non-family-owned firms, while family-owned firms managed by a person from the owner family are significantly less productive (p. 107).	Empirical	Family firm: At least 33% of the shares are owned by one family.	Productivity: Standard Cobb-Douglas productivity function	. Industry . Stock exchange affiliation	438 Norwegian firms	1996

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Literature	Main Arguments and Findings	Research	How Family Firms are Defined	Performance Measure	Control Variables	Sample	Period
Barontini & Caprio (2005)	. Valuation and operating performance are significantly higher in founder-controlled corporations, and are at least not worse than average in descendant-controlled corporations. . Family control is positive for firm value and operating performance in Continental European firms. . When a descendant takes the position of CEO, family-controlled companies are not statistically distinguishable from non-family ones in terms of valuation and performance (p. 1).	Empirical	Family control: Family controls more than 51% of direct voting rights, or controls more than the double of the direct voting rights of the second largest shareholder.	. Tobin's Q . ROA	. Industry . Firm size . Growth: % increase in sales from previous year . Leverage: Debt/Equity	5,547 corporations in 13 Western European countries	1999-2001
Carney (2005)	Family-controlled firms' competitive advantage arises from their system of corporate governance.	Theoretical					

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Literature	Main Arguments and Findings	Research	How Family Firms are Defined	Performance Measure	Control Variables	Sample	Period
Filatotchev et al. (2005)	Board independence from founding family and board members' financial interests has a positive impact on performance in Taiwan (p. 257).	Empirical	Family ownership: the equity holding of the largest individual shareholder and close family.	. Return on capital employed: Profit before tax/Total Issued capital . ROA . Sales Revenue: % of issued capital . Earnings per share: (Profits after tax-Dividend paid on preference shares)/Total issued shares	. Industry . Logarithm of capital intensity ratio . Logarithm of number of employees . Logarithm of age . Gearing ratio . Profit margin .Firm's membership to a bigger group . Logarithm of size of the board . Number of supervisors	228 Taiwanese firms listed in Taiwan Stock Exchange	1999
Perez-Gonzales (2006)	. Firms where incoming CEOs are related to the departing CEO, to a founder, or to a large shareholder underperform. . Lower performance in firms that appoint family CEOs (p. 1559).	Empirical	Family succession: Any management change where the new CEO was related by blood or marriage to: (a) the departing CEO, (b) the founder, or (c) a large shareholder.	. Average unadjusted operating return on assets . Industry-adjusted operating return on assets.	. Market to book ratio . R&D/assets	335 nonfinancial, nonutility firms	1994

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Literature	Main Arguments and Findings	Research	How Family Firms are Defined	Performance Measure	Control Variables	Sample	Period
Villalonga & Amit (2006a)	. Family ownership creates value only when the founder serves as the CEO of the family firm, or as its chairman with a hired CEO. . Dual class shares, pyramids, and voting agreements reduce the founder premium. . When descendants serve as CEOs, firm value is destroyed (p. 385).	Empirical	Family firm: (1) Family has shares (2) Family has shares and has family officers and directors (3) Family is largest vote holder (4) Family is largest shareholder (5) Family has any shares, and is in second or later generation (6) Family is largest voteholder, and has family officers and directors (7) Family is largest shareholder and has at least 20% of the votes (8) Family has shares and family directors but no family officers (9) Family is largest voteholder, has at least 20% of the votes and has family officers and directors, and is in second or later generation.	Tobin's *q:* market-to-book value	. Governance Index . % of ownership in the firm by nonfamily blockholders . Proportion of nonfamily outside directors . Market risk . Corporate diversification . R&D/sales . Capital expenditures relative to property, plant, and equipment . Dividends relative to the book value of equity . Leverage . Firm size . Firm age . Industry	Fortune-500 firms	1994-2000

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Literature	**Main Arguments and Findings**	**Research**	**How Family Firms are Defined**	**Performance Measure**	**Control Variables**	**Sample**	**Period**
Villalonga & Amit (2006b)	The impact of control-enhancing mechanisms on firm value depends on the specific mechanism used (p. 1).	Empirical	Family firm: The founder or a member of his or her family by either blood or marriage is an officer, director, or blockholder, either individually or as a group.	Tobin's *q*	. Industry . Age . Firm's stock market risk . Corporate diversification . Capital expenditures relative to fixed assets . Dividends as a fraction of book equity . Debt relative to the market value of equity . Firm size	Fortune 500 firms	1994-2000
Lee (2006)	. Family firms tend to experience higher employment and revenue growth over time and are more profitable. . Firm performance improves when founding family members are involved in management (p. 103).	Empirical	Family firm: Family members or descendants hold shares or are present on the BOD.	. Employment growth . Revenue growth . Gross income growth . Net profit margin	. Industry . Firm size . Firm growth opportunities: Ratio of capital expenditures over gross revenues . Firm age . Incentive effects: % ownership by officers & BOD	403 S&P 500 firms excluding banks and public utilities.	1992-2002

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Literature	**Main Arguments and Findings**	**Research**	**How Family Firms are Defined**	**Performance Measure**	**Control Variables**	**Sample**	**Period**
Maury (2006)	. Active family control is associated with higher profitability compared to nonfamily firms, whereas passive family control does not affect profitability. . Active family control continues to outperform nonfamily control in terms of profitability in different legal regimes. . Active and passive family control is associated with higher firm valuations, but the premium is mainly due to high shareholder protection. . The benefits from family control occur in nonmajority held firms (p. 321).	Empirical	Family control: Family as largest controlling owner holds at least 10% of voting rights and the CEO, Chairman, or Vice Chairman position is held by a family member.	. Tobin's Q: The market value of common equity plus the book value of total assets minus common equity and deferred taxes divided by the book value of total assets. . ROA . ROE	. Industry . Growth opportunities: Growth in net sales (Average growth over the 3-year period 1996-1998). . Firm size . Leverage	1672 nonfinancial firms in Western Europe	1996, 1998, 2003

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Dyer (2006)	. Researchers typically classify family firms using a 0 or a 1-either the firm is a family firm or not-and then compare the performance of the sample of family firms with those firms that are designated as nonfamily. Such a classification scheme fails to recognize which “family factors” lead to high performance. . Clan family firms and professional family firms will have higher performance than nonfamily firms. . Nonfamily firms will have higher performance than self-interested family firms.	Theoretical					

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Literature	Main Arguments and Findings	Research	How Family Firms are Defined	Performance Measure	Control Variables	Sample	Period
Miller & Le Breton-Miller (2006)	. Family businesses do best when they take advantage of the potential for lower agency costs and elicit attitudes of stewardship. This is most apt to occur when voting control requires significant family ownership, when there is a strong family CEO without complete voting control and accountable to independent directors, when multiple family members serve as managers, and when the family intends to keep the business for generations. Often, these conditions are found in an established family business still being run by its founder.	Theoretical					

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Literature	Main Arguments and Findings	Research	How Family Firms are Defined	Performance Measure	Control Variables	Sample	Period
Westhead & Howorth (2006)	. Family firms did not report superior firm performance in the UK. . Management rather than the ownership structure of a family firm was generally associated with performance (p. 301).	Empirical	Family firm: If more than 50% of shares was owned by members of the largest single family group related by blood or marriage and the company was perceived by the CEO/managing director/Chair to be a family business.	. 6 performance indicators: (1) Sales revenue (2) Sales revenue growth rate (3) Cash flow (4) Return on shareholder equity (5) Gross profit margin (6) Net profits from operations	. Industry . Firm age . Location	905 firms in the UK	1995
Bennedsen et al. (2007)	. Family successions have a large negative causal impact on firm performance in Denmark. . Family-CEO underperformance is particularly large in high-growth industries and for relatively large firms (p.).	Empirical	Family CEO succession: the incoming CEO is related by blood or marriage to the departing CEO.	Operating Profitability	. Firm size . Firm age . Industry	5,334 successions in publicly and privately held firms in Denmark	1994-2002

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Literature	Main Arguments and Findings	Research	How Family Firms are Defined	Performance Measure	Control Variables
Sraer & Thesmar (2007)	. Family firms largely outperform widely held corporations over a time period between 1994 and 2000 in France. . This result holds for founder-controlled firms, professionally managed firms, and firms run by descendants of the founder (p. 709).	Empirical	Family firm: The founder or a member of the founder's family is a blockholder of the company. This block represents more than 20% of the voting rights.	Corporate performance: based on accounts, market value, or dividend payout. . ROA: EBITDA/Book value of total assets . ROE: Earnings/pre-tax profit . Market valuation: Market-to-book ratio (The sum of market capitalization and book value of assets minus book value of equity divided by book value of total assets).	. Year . Industry . Log of assets . Log age . State ownership at some point . Leverage: ratio of debt to total assets
Miller et al. (2007)	. *Fortune* 1000 firms that include relatives as owners or managers never outperform in market valuation, even during the first generation. . Only businesses with a lone founder outperform. . Neither lone founder nor family firms exhibited superior valuations. . Results confirm the difficulty of attributing superior performance to a particular governance variable (p. 829).	Empirical	Family firm: Multiple members of the same family are involved as major owners or managers, either contemporaneously or over time.	Tobin's q: ratio of the market value to book value ((commonshares outstanding*calendar year closing price)+(current liabilities-current assets)+(long-term debt)+(liquidating value of preferred stock)) / total assets)	. Industry . Advertising/sales . R&D to sales . New investment in plant and equipment . Leverage . Beta: volatility of returns . Total ownership of outside blockholders >5% . Special voting shares . Firm age . Log of firm sales . Sales growth

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Literature	Main Arguments and Findings	Research	How Family Firms are Defined	Performance Measure	Control Variables	Sample	Period
Villalonga & Amit (2009a)	. The impact of control enhancing mechanisms on firm value depends on the specific mechanism used: dual-class stock and disproportionate board representation have a negative impact, while pyramids and voting agreements have the opposite effect (p. 3029).	Empirical	Family controlled firm: The founder or a member of his or her family by either blood or marriage is an officer, director, or blockholder, either individually or as a group.	Tobin's *q*	. Industry . Age . Stock market risk . Corporate diversification . Capital expenditures relative to fixed assets . Dividends as a fraction of book equity . Debt relative to market value of equity . Firm size	Fortune 500 firms	1994-2000

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Literature	**Main Arguments and Findings**	**Research**	**How Family Firms are Defined**	**Performance Measure**	**Control Variables**	**Sample**	**Period**
Villalonga & Amit (2009b)	. Founding families retain control when doing so gives the firm a competitive advantage, not just when they can appropriate benefits of control at the expense of nonfamily shareholders. . Nonfamily shareholders in founding family firms are better off than they would be without family control (p. 36).	Empirical	. Family controlled firm: (1) The founder or a member of his or her family by either blood or marriage is an officer, director, or blockholder, either individually or as a group. (2) Firms in their second- or later generation and CEO is the founder or a family member of the founding family (3) family owns 5% or more of any class stock (4) Second- or later-generation firms whose CEO is an individual blockholder or a member of a blockholding family.	ROA: ratio of EBITDA to total assets	. Age . Sales growth	8,104 firms	2000

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Literature	Main Arguments and Findings	Research	How Family Firms are Defined	Performance Measure	Control Variables	Sample	Period
Minichilli et al. (2010)	. The presence of family CEO is beneficial to the firm performance. . However, the coexistence of factions in family and nonfamily managers within the TMT has the potential to create schisms among the subgroups and consequently hurt firm performance (p. 205).	Empirical	. Family control: The same family owns more than 50% of the shares.	ROA	. Firm size . TMT size . CEO tenure	500 Italian industrial family-controlled firms	2005
Peng & Jiang (2010)	. The net balance of the benefits and costs of family control in large firms is systematically linked with the legal and regulatory institutions governing investor protection (p. 267).	Empirical	Family firms are recognized as firms having a family as the largest shareholder with a 5% control rights share cut-off.	Firm value: % of cumulative stock return from January 1 to December 31 1998.	. Debt-to-assets ratio . Firm risk (beta) . Accounting transparency: Higher disclosure quality . Firm age . Market-to-book ratio . Capital-to-assets ratio . Industry . Country	634 Asian firms (from 7 Asian countries).	1996